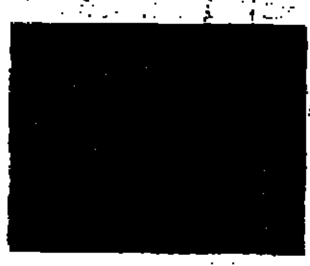
FINANCIAL TIMES



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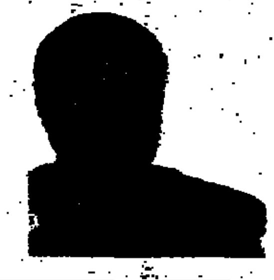

Générale des Eaux
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World Business Newspaper http://www.FT.com THURSDAY NOVEMBER 28 1996

Battle likely over tighter pollution standards for US

The US Environmental Protection Agency proposed stricter standards for air emissions in a move likely to spark a battle between industry and public health advocates in Congress and the White House. EPA administrator Carol Browner proposed tight standards for emissions of the chemicals and particles that form smog and soot, saying the measures would save at least 20,000 lives a year. Page 14

Générale des Eaux seeks higher return: French utilities, construction and communications group Générale des Eaux aims to lift its return on equity to 15 per cent by 2000, company president Jean-Marie Messier said. Page 15

Scandinavian merger clouded: A proposed merger between Scandinavian insurer Skandia and Swedish mortgage bank Stadshypotek was clouded when the Swedish government said it would go ahead with an auction of its 34 per cent stake in Stadshypotek. Page 15

UK seeks reform of fisheries policy

The British government set out plans to reform the Common Fisheries Policy and drive mainly Spanish "flag of convenience" fishing boats from British waters. The plans included a requirement that crewmen on UK-registered boats should speak English. Prime minister John Major discussed the proposals with Spanish premier José María Aznar (above) in London. Page 8

IBM to invest $590m in Thailand: International Business Machines of the US will next week announce an investment worth as much as $590m to build two factories in Thailand. Page 14

Vietnam closer to US air deal: Hanoi broke a two-year impasse in talks with the US aimed at establishing air links between the two former enemies by saying it might allow US airlines to pick up passengers en route to and from Vietnam and America. Page 5

Disney defies Beijing warning: Walt Disney said it would distribute a film on the life of the Dalai Lama despite warnings from Beijing that its links with the feature could imperil the entertainment group's expansion in China. Page 7

Syria rejects talks from scratch: Syria says it is ready to resume peace negotiations with Israel, but only from the point they had reached under the former Labour-led administration. New Israeli prime minister Benjamin Netanyahu wants to start talks from scratch. Page 4; Scandal forces minister to quit, Page 2

South Africa breaks ties with Taiwan: South Africa is to sever diplomatic ties with Taiwan in order to establish full diplomatic relations with China, President Nelson Mandela said. Page 4; Taiwan seeks to restore China shipping links, Page 5

Recovery slow in Latin America: Latin America's recovery from the economic setback brought about by the 1995 financial crisis in Mexico has been too slow to affect poverty and unemployment, the Inter-American Development Bank says. Page 6

Iberia plans cuts at Viasa: Spanish airline Iberia presented an emergency cost-cutting plan to shareholders at Viasa in an effort to stem losses at the financially troubled Venezuelan airline in which Iberia has a 45 per cent share. Page 15

Japan's recovery remains slow: Japan's economy has recovered from a summer slowdown, but the revival is stubbornly slow, a survey by the Bank of Japan shows. Page 7

China and India to cut border troops: India and China are expected to cut troop numbers along their disputed border to mark a four-day visit to the sub-continent by Chinese president Jiang Zemin. Page 7

Westpac in Asian deal: Australian commercial bank Westpac is to move back into the Asian region through an alliance with UK-based bank Standard Chartered. Page 15

FT.com: the FT web site provides online news, comment and analysis at http://www.FT.com

■ STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	6494.87	(-33.54)
NASDAQ Composite	1283.15	(+1.95)
Europe and Far East		
CAC40	2,276.77	(-4.31)
DAX	2,787.89	(-13.61)
FTSE 100	3998.4	(-19.2)
Nikkei	21,345.28	(+22.97)

■ US LUNCHTIME RATES

Federal Funds	$5\frac{7}{16}$%
3-mth Treas Bills: Yld	5.134%
Long Bond	$100\frac{13}{32}$
Yield	6.422%

■ OTHER RATES

UK: 3-mo Interbank	$6\frac{5}{16}$%	($6\frac{5}{16}$%)
UK: 10 yr Gilt	$100\frac{1}{8}$	($100\frac{7}{32}$)
France: 10 yr OAT	105.31	(105.20)
Germany: 10 yr Bond	103.22	(same)
Japan: 10 yr JGB	103.8789	(103.165)

■ NORTH SEA OIL (Argus)

Brent Dated	$23.13	(22.77)

■ GOLD

New York Comex		
Dec	$372.8	(374.5)
London:		
close	$373.5	(374.0)

■ DOLLAR

New York lunchtime:		
£	1.6745	
DM	1.5285	
FFr	5.177	
SFr	1.293	
Y	113.33	
London:		
£	1.6736	(1.6727)
DM	1.5281	(1.5276)
FFr	5.1668	(5.1828)
SFr	1.2906	(1.2938)
Y	113.35	(112.725)
Tokyo close:	Y 113.89	

■ STERLING

DM	2.5584	(2.5551)

Albania	LEK 275	Gibraltar	£0.75	Lithuania	Lit 18.00	Qatar	QR13.00		
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR13		
Bahrain	Din1.300	Hong Kong	HK$20	Malta	Lm0.70	Singapore	S$4.30		
Belgium	BFr75	Hungary	Ft270	Morocco	MDh15	Slovak Rp	Sk75		
Cyprus	C£1.30	Iceland	IKr250	Neth	Fl 4.75	S. Africa	R12.00		
Czech Rp	K270	India	Rs75	Nigeria	Naira125	Spain	Pta250		
Denmark	DKr20	Israel	Shk9.00	Norway	NKr22.00	Sweden	SKr20		
Egypt	E£5.00	Italy	L3200	Oman	OR1.75	Switz.	SFr3.70		
Estonia	EKr 28	Japan	Y500	Pakistan	Rs50	Syria	S£80.00		
Finland	FM18.00	Jordan	JD1.75	Poland	Zl 6.00	Tunisia	Din2.000		
France	FFr12.00	Kuwait	Fils750	Portugal (m'land)	Es295	Turkey	L120,000		
Germany	DM4.00	Lebanon	LL3500			UAE	Dh13.00		

Talks raise hope of end to French truck strike

Parts shortages starting to affect vehicle production

By David Buchan in Paris

An end to the 10-day French truck drivers' dispute appeared to be in sight last night after partial agreement was reached on the drivers' demands and the threat of broader French strikes failed to materialise.

But after the French government mediator convened more negotiations yesterday afternoon with representatives of the truckers and their employees, the two sides still seemed deadlocked on the outstanding issue of pay.

The strike has drawn angry protests from France's neighbours and is taking a mounting toll on European industry.

Volkswagen said it could trigger short-time work from next week at its German plants because the company is running short of vehicle parts from France and Spain. Spanish motor manufacturers, including subsidiaries of France's Peugeot Citroën and Renault groups, also risk being badly hit by component delays, and Swedish truck producer Scania said the strike had already forced it to halt production at its truck plant in Angers.

Companies have been avoiding the blockades by air-freighting shipments to France. One British company moving urgent hospital supplies to Paris is now flying them in, while Tesco and other UK retailers are considering air freighting lettuces, oranges and tomatoes from France despite the high costs.

Mr Alain Juppé, the French prime minister, said the government was keeping up "pressure on both sides, so that we can reach a final deal as soon as possible". But Mr Bernard Pons, his transport minister, cautioned that pushing less profitable haulage firms into conceding higher pay and shorter hours might endanger jobs.

Earlier yesterday agreement was reached on the drivers' demand for their retirement age to be cut from 60 to 55. The state and employers are to share the cost, with companies hiring a young driver for every older one who leaves.

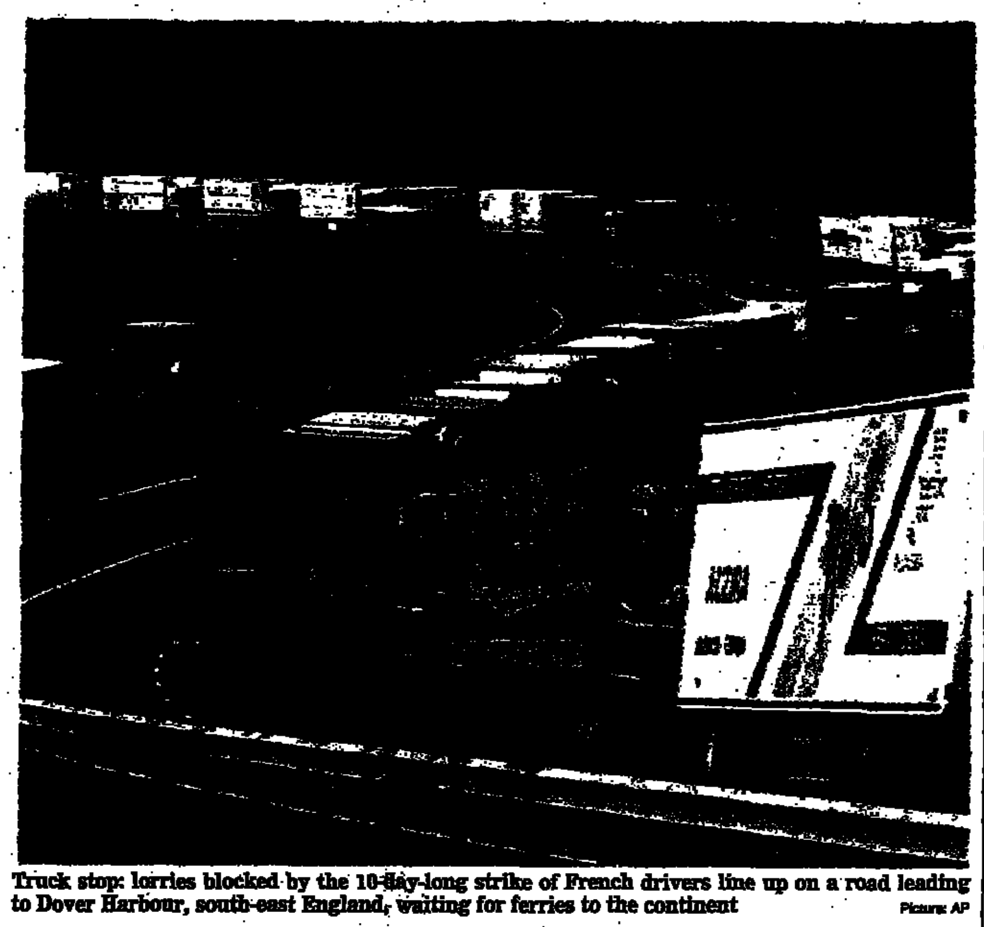
The government has also agreed to reduce employers' welfare charges in the hope of leaving them money to meet some of the drivers' pay demands. But the gap on pay still appeared very wide last night, with the drivers demanding a rise of around 20 per cent to FFr10,000 for 200 hours a month, and the employers apparently offering only a 1 per cent rise.

The government's move to lower both the retirement age and welfare charges concessions appeared to deter the main union federations from their earlier threats to widen the strike in support of the drivers.

Only a few rail workers struck in support of the drivers, blocking traffic through the north western cities of Rouen and Nantes. Air France and other airlines had to cancel many flights yesterday, but this action is a separate protest against European deregulation.

International patience wears thin, Page 2

Channel tunnel operator Eurotunnel said total costs of the fire that forced closure of the tunnel rail link 10 days ago could run to more than FFr2bn ($380m). Full repairs were likely to take five months. The company said it was insured for all but the first FFr55m. Report, Page 15; Observer, Page 13



Truck stop: lorries blocked by the 10-day-long strike of French drivers line up on a road leading to Dover Harbour, south-east England, waiting for ferries to the continent Picture: AP

GEC head casts doubt on French purchase

By Ross Tieman and David Owen

Strong doubts about the proposed acquisition of the French nuclear plant builder Framatome by the UK's General Electric Company and France's Alcatel Alsthom were expressed yesterday by Mr George Simpson, GEC's managing director.

"It is difficult to be very optimistic about the outcome at this stage," Mr Simpson said. "There are some difficult issues of shareholding structure and shareholders' agreement to be resolved."

Talks with directors of Framatome and its investors, including the French government, have been under way since August.

GEC and Alcatel have proposed that Framatome be purchased by GEC Alsthom, their 50-50 power engineering and transport joint venture.

But it seems GEC is determined to retain its 50 per cent interest in any larger group, and is willing to spend part of its enormous cash pile to maintain its stake.

Only if a very strong shareholder agreement is drawn up to protect its interests will GEC accept dilution of its GEC Alsthom stake.

Mr Simpson's remarks appear more downbeat than those of GEC's chairman emeritus and former managing director, Lord Weinstock, in a French newspaper interview published yesterday.

He seemed to suggest that GEC would accept dilution of its stake in GEC Alsthom provided its interest was no smaller than Alcatel's.

However, it may be that GEC is less willing to dilute its holding because the prospects of merging its defence business, GEC Marconi, with Thomson CSF of France in a parallel deal have diminished.

Mr Simpson's remarks came as CEA Industrie, the French nuclear technology group, said it expected the three big French state-controlled

Continued on Page 14

T&N scheme aims to cap asbestos claims

UK engineering group secures $1.68bn cover

By Tim Burt in London

T&N, the UK engineering group, yesterday announced an innovative insurance scheme aimed at making it the world's first former asbestos company to cap all future liabilities.

The company, which has paid out more than £350m ($588m) in compensation in the past decade, said it had secured cover in excess of £1bn against asbestos-related claims – most arising in the US.

The move follows several months of talks with three leading reinsurers – Centre Re, Munich Re and Swiss Re – which have agreed to provide up to £500m of cover, while the company has vowed to meet claims of up to £690m from internal resources.

News of the deal pushed T&N shares up by more than 22 per cent from 144½p to 176½p, lifting the group's market value by £170m to more than £900m. Sir Colin Hope, chairman, said the scheme would signal the end to T&N's asbestos legacy.

The company, formerly called Turner & Newall, produced asbestos for more than 100 years and only withdrew from the industry this year by selling its last asbestos mines in Zambia and Zimbabwe.

"These proposals are intended to bring an end to the uncertainty surrounding the asbestos issue that has overshadowed the group for so many years," said Sir Colin.

The deal was welcomed by some of T&N's largest institutional shareholders. Others suggested that resolving the asbestos issue could prompt a bid for the company, but added they were unlikely to sell their stakes in the medium term.

T&N claimed it was able to draw a line under its asbestos legacy following test cases in the US courts, where judges have begun to accept actuarial assessments of the liabilities faced by asbestos companies.

That has enabled the group, advised by insurance brokers Sedgwick, to draw up a scheme setting an upper limit to its future asbestos exposure.

Sir Colin yesterday said T&N would set up a special balance sheet fund of almost £328m – taken as a provision against this year's profits – to meet its foreseeable liabilities. That asbestos fund, the first of its kind for a UK company, will be invested in fixed interest securities and equities to generate a return of at least 7 per cent – thereby lifting T&N's "internal cover" to £550m.

As part of the scheme, T&N shareholders will be asked approve a recapitalisation cutting the nominal value of the company's shares from 100p to 40p, which will offset the impact of asbestos provisions on the group's reserves.

T&N escapes maze of liability, Page 23

Cancelled pensions hit assets of Japan's assurers

Withdrawal of group pension contracts causes first assets fall

By Gwen Robinson in Tokyo

Japan's eight leading life assurers reported their first fall in combined net assets in the six months to September 30, largely because of mass cancellations of group pension assurance contracts.

The cancellations – of as much as Y600bn-Y700bn ($5.3bn-$6bn) – were prompted by the cut that life assurers made in their guaranteed yield on these plans in April from 4.5 per cent to 2.5 per cent, following the lowering of domestic interest rates.

The life assurance industry is dominated by mutual companies, but their investment power is so large that their cash flow difficulties constitute a heavy drag on the Japanese stock market.

Combined assets of the top eight slipped to Y142,820.6bn at the end of September, 1.3 per cent lower than they were at the end of March. Nippon Life, the world's largest assurer, reported a slight net increase in assets, of 1.1 per cent, to Y39,440.6bn.

The others, Dai-Ichi, Sumitomo, Mitsui, Meiji, Asahi, Yasuda and Chiyoda, all suffered declines. Their combined income from asset management fell 15.4 per cent to Y2,832bn, and combined premium income fell 6.3 per cent to Y10,623.8bn.

Refunds to policyholders soared 72.3 per cent to Y13,148.6bn, partly because of mass cancellations by pension fund operators. The government's Pension Welfare Service Public Corporation, which manages welfare, pension and other public funds, made the biggest cancellations.

"The results were as poor as we expected, and we've already downgraded quite a few of the life insurers," said Ms Keiko Mizoguchi of Standard & Poor's credit rating agency in Tokyo. "This is an industry facing very stiff challenges – a slow economy, a market that has virtually matured, diminished capital and weak asset and liability management," she said.

The combined total of non-performing loans at the eight firms fell 3.3 per cent in the six-month period to Y2,147.3bn, but debt is likely to become a greater problem as the companies are forced to restructure more loans. Sumitomo Life, for example, said it had exempted or reduced interest payments on loans worth Y240bn out of a total of Y650bn in lending to affiliated non-bank finance companies.

Mr Andrew Smithers, a London-based capital markets consultant, said Japan's life assurance industry would remain unprofitable for the foreseeable future.

"As Japanese life assurance is dominated by mutual companies, there's a natural tendency to reinvest profits in growth. In the 1980s, the rapid and consistent increase in share and property prices gave the illusion of high profits and these were used to encourage new sales rather than reward existing policyholders," he said.

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CONTENTS

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International patience wears thin as truck strike enters its tenth day

France faces damages claims

The International Road Transport Union, umbrella group of Europe's haulage industry, said yesterday it would press for compensation from the Paris government for damage suffered by non-French drivers from the truckers' protest.

Mr Martin Marmy, secretary general of the Geneva-based body, said he had given precise instructions to its national associations how to file compensation claims with the French local authorities. As the strike entered its tenth day yesterday, officials and employers' organisations from across western Europe said they would seek compensation.

The strike has clogged motorways and blocked ports throughout Europe, hitting transport companies, travellers and consumers. Foreign drivers caught in the dispute have been living in their cabs for days, many running out of food and money.

In Bonn, Mr Matthias Wissmann, the transport minister, called on France and Denmark, which was hit by a separate transport dispute, to allow German drivers safe passage to the German border.

Mr Wissmann warned that many of the German vehicles contained dangerous substances and some carried live animals. He also said the blockade would endanger the livelihoods of many smaller transport companies, which could not afford the financial cost of the delays.

The blockade is starting to affect German industry. Volkswagen said yesterday that the strike could trigger short-time work from next week, affecting every VW plant in Germany.

VW is running short of heating and air conditioning systems from France, and body parts for its Polo and Golf models originating from Spain. As a safeguard, it has ordered extra supplies by air.

Spanish motor manufacturers, including subsidiaries of France's Peugeot-Citroën and Renault groups, also risk being badly hit by component delays. Citroën Hispania said its factory at Vigo in northwest Spain, which produces 1,250 cars a day, had enough stocks to ensure full production today but would have to review prospects for Friday.

In Stockholm, Scania said it had stopped production of trucks at its Angers plant because components had been held up by the strike. In France, Renault said it had closed a factory in Douai.

At least 1,000 lorries carrying farm produce from Spanish Mediterranean regions are believed to be held up, including some 200 from the Almeria farming region alone. Co-operatives in the Valencia region, Europe's main supplier of citrus fruit, warned of potential losses of Pta30bn ($240m) this week if deliveries continued to be blocked. Some 80 per cent of exports from the region go by road.

In Belgium, all main motorway crossings, including the Brussels-Paris and Ghent-Lille routes, are blocked to freight traffic.

At least 3,000 Belgian lorries a day normally carry goods to, from, and across France, and several hundred have been stranded there. Febetra, the Belgian transporters' federation, which has advised members not to attempt to drive in France, issued a statement denouncing its French counterparts for "taking hostage" drivers from other states.

Although the blockade has not yet led to fuel shortages, large Belgian retailers such as GIB and Colruyt have warned of impending shortages of products such as Spanish fruit, and French poultry and wine. GIB is seeking alternative supplies from Turkey and Greece.

The Netherlands, where the transport sector contributes as much as a tenth of gross domestic product, is especially anxious about the widening blockades. Industry estimates put the cost to Dutch business at up to Fl4m ($2.5m) a day.

British companies have been avoiding the blockades by air-freighting shipments to France. One company supplying urgent hospital supplies to Paris is now flying them in, while Tesco and other UK retailers are considering flying in lettuces, oranges and tomatoes from France. But air freight costs are seven to eight times those of road.

In France itself, the main economic impact of the truckers' action has so far been on the oil industry. Many depots, particularly around Caen, Nantes, Bordeaux, Marseilles and Lyons, are blocked by trucks. Many garages in these areas have run out of petrol, although diesel is plentiful because so many trucks lie idle.

In the separate Danish dispute, almost a million Christmas trees, as well as thousands of tonnes of fish, pork and other products for the Continental and Scandinavian Christmas trade, were held up at ferry ports and border crossings for a second day yesterday.

Lorry drivers are protesting against a change in the tax-deductible daily allowance of DKr150 ($26) they receive when out of the country. A revised proposal from Mr Carsten Koch, the taxation minister, was shouted down yesterday by a drivers gathered in Padborg, the big road freight crossing point into Germany from Jutland. However, rumours that the truckers will turn up the pressure on the government by blockading Copenhagen have so far come to nothing.

By David Buchan in Paris, Wolfgang Münchau in Frankfurt, Hilary Barnes in Copenhagen, David White in Madrid, Neil Buckley in Brussels, Gordon Cramb in Amsterdam and Charles Batchelor in London

Overcapacity the problem in France

By David Buchan in Paris

Two factors are at the root of the French truckers' protest, the country's biggest private sector dispute for several years: overcapacity within the industry, and incapacity by the government to simply remove the 200 illegal road blockades which truckers have mounted in pursuit of their pay and work condition demands.

Truckers and their employers both agree that France has too many road haulage companies – 36,500, most of which employ fewer than 10 people, and a 40 per cent increase in the past decade. Over that period, the amount of road freight carried on French roads has risen by half to 122bn tonne-kilometres a year.

But international competition, made possible by European deregulation, has taken an increasing slice of this. Therefore, while road haulage is one of France's few sectors to create new jobs, the number of truck drivers has only increased by 25 per cent since 1986 to reach around 317,000.

In the face of this competition, unions complain that companies are working their

CGT union leader Louis Viannet (left) with striking French drivers at an oil refinery near Dunkirk yesterday *Reuter*

drivers too long and paying them too little. Average pay is around FFr8,000 ($1,570) for some 200 hours a month, though many work more than 240 hours. This is effectively only just over the minimum wage, which is *calculated on only 169 hours* a month.

Mr Rénée Valladon, a national secretary of the Force Ouvrière union, said yesterday that "European deregulation has so far just been a pretext for employers not to improve drivers' conditions".

He admits that full EU *deregulation, which from* 1998 will allow non-French drivers to carry cargo purely within France, will pose a serious problem. Because of its size and central position within the EU, France has the biggest road haulage market in the Union.

Overcapacity is the prob*lem at the moment, says Mr* Valladon. Barriers to entry into road haulage are low, amounting to not much more than the price of a truck. "The normal tariff is around FFr7 per tonne-kilometre," he says, "but one can always find smaller companies ready to carry freight for as little as FFr3. This leads to dumping conditions in tariffs, and also in pay and work conditions."

The union official believes there are anywhere between 3,000 and 10,000 too many companies. However, the Fédération Nationale des Transporteurs Routiers, the biggest association of haulage companies, gives no such estimates. Its officials concede, though, that overcapacity may have grown worse recently thanks to a sharp recovery in investment, mainly in new trucks, and a 4-5 per cent drop in the market this year. In these circumstances, profitability has hardly improved from 1994, when the industry's profits totalled 1 per cent of turnover.

Indeed, earlier this week government officials were muttering darkly that larger haulage companies were being intransigent in the negotiations precisely to *prolong a conflict* that might send some of their competitors to the wall.

Bonn, Paris out of tune on Emu pact

By Our Foreign Staff

Differences emerged yesterday between Bonn and *Paris over how far the German*-backed budget stability pact, for countries joining economic and monetary union, should take growth and employment into account.

*In France, where thou*sands of striking truck drivers have paralysed roads, an embattled Mr Alain Juppé, the prime minister, suggested the pact should not just be limited to budgetary discipline.

In a further sign of French restiveness, Mr Jacques Delors, former president of the European Commission, accused Germany of reducing Emu to the sole issue of deficit reduction at the risk of stifling economic growth and jobs.

In Bonn Mr Jürgen Stark, state secretary of the German finance ministry, called *for renewed budgetary rig*our. He described how, "in a truly revolutionary development", EU countries had agreed to aim over the medium term for budgets which were "close to balance *or in surplus*".

Differences over the scope and terms of the stability pact have so far been confined largely to Germany's demands for firm rules and tough penalties against countries running excessive deficits in the single currency area.

But high unemployment and social unrest in France appear to be triggering doubts about allowing Emu to turn into a fiscal and monetary straitjacket, especially as the Paris government is still clinging to its *franc fort* policy.

Yesterday, Mr Juppé told *the National Assembly that* it was time to discuss growth and employment in the planned monetary union. He added that the future European central bank – whose independence is guaranteed under the *Maastricht* treaty – should be held to account by government leaders.

French calls for a less rigid approach to fiscal policy than the Bonn government and the Bundesbank would like are supported by Britain, Italy and Spain. Only the Dutch are close to the German position – though all 15 EU member states support the principle of a stability pact.

Mr Stark said he expected the main elements of the pact to be agreed at next month's EU summit in Dublin, but unresolved problems *would be settled in time for* a ceremonial confirmation at next summer's EU summit in Amsterdam.

The final deal would also include the voluntary remodelled exchange rate mechanism, *limiting fluctuations* between currencies in and outside the euro zone.

Mr Stark's comments were markedly more optimistic than earlier this month when he threatened to pull Germany out of negotiations if other member states and the European Commission insisted on watering down the proposals and penalties.

They matched Irish caution about a final deal being wrapped up at Dublin.

Germany's central demand is for a strict numerical definition of the "temporary and exceptional circumstances" *under which Emu partici*pants would be allowed to run deficits in excess of 3 per cent of gross domestic product and escape penalties.

One compromise under review is to agree to German *demands that countries suf*fering a decline of 2 per cent of GDP would escape penalties. But countries suffering a light recession involving a decline of up to 0.5 per cent or 1 per cent of GDP would not escape fines.

Any figure in between would be left to the discretion of ministers, who would also consider a country's track record. The pact will be discussed at a meeting of EU finance ministers in Brussels on Monday.

Scandal forces Norway minister to quit

By Hugh Carnegy in Oslo

Mr Terje Röd-Larsen, the Norwegian who until last month played a central role as a mediator in Israeli-Palestinian peace talks, was forced to quit his new job as a top government minister yesterday following allegations of irregular share dealings.

The resignation was a serious setback for Mr Thorbjörn Jagland, the Labour prime minister. He brought Mr Röd-Larsen home from his job as special UN envoy based in the Gaza Strip to be a central figure in the new administration when Mr Jagland took over as premier after the retirement in October of Mrs Gro Harlem Brundtland.

Mr Röd-Larsen's dramatic fall from grace was prompted by reports that he had gained NKr600,000 ($95,000) in profits from a share options deal 10 years ago involving a company which failed shortly afterwards.

He resigned after the police economic crime unit said it was investigating the affair, including allegations that he had back-dated the share options agreement to avoid tax.

Mr Röd-Larsen denied any wrongdoing and said all his dealings in the company, in which he was marketing director at the time, were known to the tax authorities. He welcomed the police investigation, but said the affair, chased relentlessly by the Norwegian media over the past two weeks, had affected the government's work and forced him to step down. "I don't deserve this," he told reporters.

Mr Jagland, whose *first* weeks in office have been marred by the issue, said: "He had no possibility to do his job as a minister with this thing hanging over him."

Mr Röd-Larsen and Ms Mona Juul, his diplomat wife, played a key supporting role in the secret talks in Norway between Israel and the Palestine Liberation Organisation that led to the 1993 Oslo peace accords. Mr Röd-Larsen, previously the leader of a prominent Norwegian trade union think-tank, was subsequently appointed by Mr Boutros Boutros Ghali, UN secretary-general, to act as his deputy in the Middle East.

Until his return home he had been involved in efforts to rekindle negotiations between the Palestinians and the rightwing Israeli government of Mr Benjamin Netanyahu.

Mr Jagland appointed Mr Röd-Larsen, a close friend, planning minister with a brief to "build Norway's house" for the next millennium.

Mr Röd-Larsen, effectively deputy prime minister, was to have been the central figure in preparing Norway for the era looming early in the next century when its North Sea oil riches, which have made it one of the world's most prosperous countries, start to decline.

The premier said he would appoint a successor to Mr Röd-Larsen soon.

He insisted the minority Labour government would not be damaged by the affair, but opposition leaders said it had jolted the credibility of the new prime minister.

Observer, Page 13

EUROPEAN NEWS DIGEST

Brussels firm on postal plan

The European Commission will today block Franco-German attempts to freeze any liberalisation of the EU's $75bn postal market until 2003. It will press ministers hard to reach agreement or risk it using special powers to impose competition without their consent.

Mr Martin Bangemann, *industry commissioner*, was yesterday given a mandate by the Commission to try to tie up an agreement after 18 months of stalled progress on a draft liberalisation directive. But he said the Commission would do all it could to block Franco-German proposals to amend the plan and effectively postpone competition until at least 2003.

France fears a clash with postal unions, on top of current strikes by lorry drivers. Germany, although liberalising its internal postal market, surprisingly sided with France at a meeting in Paris this month.

Since it is already agreed that national monopolies can be retained for ordinary domestic letters weighing up to 350g, *the sectors at stake* are "direct" mail and in-bound cross-border mail. *Neil Buckley, Brussels*

EU credit rating warning

Many European financial institutions could be given lower credit ratings once the EU's planned single currency is introduced, according to the IBCA ratings agency. The agency warned yesterday that banks would lose a large part of profits currently earned from foreign exchange transactions. The proposed European central bank would also be less likely to help banks in trouble by, for example, changing interest rates than individual central banks were at present.

Small local banks which currently exploited their knowledge and expertise of their own countries' financial markets would lose that comparative advantage as European markets became integrated, it said. Larger banks were then likely to gain at the expense of smaller institutions. The loss of foreign exchange business could be significant since in some small European countries currency trading generated revenues of up to 1 per cent of gross domestic product. *Graham Bowley, London*

German embassies to shut

Germany is to close several embassies and consulates as part of budget savings being debated this week in parliament. Mr Klaus Kinkel, foreign minister, said his department was "up against the wall" and MPs could not in future expect the same level of service overseas from the foreign ministry.

The closures are casualties of the 1997 budget which Chancellor Helmut Kohl said would ensure Germany met Maastricht criteria for economic and monetary union. A 2.5 per cent cut in federal spending is envisaged. Mr Kohl predicted growth of 2-2.5 per cent next year, slightly lower than his previous estimates.

The foreign ministry said at least three embassies would be shut next year in third world countries. Consulates are expected to close shortly in a number of European cities. *Ralph Atkins, Bonn*

Swiss amend Nazi loot law

The Swiss parliament's upper house has watered down legislation to set up an official investigation into whether Switzerland is hiding billions of dollars worth of dormant *bank accounts of Holocaust victims and looted Nazi* assets. It passed the bill but added a clause to protect the identities of people named in the official historical study.

This is an embarrassment for Mr Flavio Cotti, foreign minister, who had given an undertaking to Mr Greville Janner, the British MP who chairs the Holocaust Trust, that the legislation would not be diluted. Jewish representatives are concerned that any future restitution process may be made more difficult.

The legislation, already approved by the government, will now go back to the lower house. The Swiss Bankers Association said yesterday that it was happy to accept the original draft. *William Hall, Zurich*

Chechnya pull-out confirmed

Russia will finish withdrawing its remaining 6,000 troops in the separatist region of Chechnya by January 25, two days before local polls to elect a new president and parliament, the defence ministry confirmed yesterday.

The withdrawal is in line with a pledge President Boris Yeltsin gave at the weekend, but has aroused a storm of controversy in Moscow. Opposition politicians, who have called for Mr Yeltsin's impeachment over the issue, claim the move effectively cedes autonomy to Chechnya and will lead to break-up of the Russian federation. The troops will be redeployed in the southern Russian town of Budennovsk, where Chechen rebels took hostages in a raid in June 1995. *John Thornhill, Moscow*

Last N-missile leaves Belarus

Belarus yesterday sent the last nuclear missile left over from the Soviet era to Russia. Its departure means the entire Soviet arsenal now rests on Russian territory. Next month was the deadline for all SS-25 missiles and warheads to be removed under an agreement with Russia after the Soviet Union's collapse. President Alexander Lukashenko of Belarus had threatened to stop the withdrawal unless Nato dropped plans to expand eastward.

General Igor Rodionov, Russia's defence minister, attended the ceremony yesterday at a Belarusan base, but Mr William Perry, his US counterpart, did not. A state department spokesman had expressed US displeasure at Mr Lukashenko's imposition of sweeping constitutional changes following Sunday's disputed referendum. *Matthew Kaminski, Minsk*

Commission blocks merger

The European Commission has blocked a proposed merger of the silicon carbide operations of the French glass company Saint-Gobain with German chemical concern Wacker Chemie and Nom, a Dutch investment company. Although a formal announcement will not be made until all the legal texts have been completed, a Commission official confirmed the project had been banned because of fears that it would lead to a dominant position.

This is only the seventh merger to be blocked by Brussels since 1990, but three of those have come in the past eight months, suggesting a greater willingness by Brussels to be tough on companies that do not offer enough concessions to make a merger acceptable.

The Commission is also expected to make a decision next week on French government plans to sell Thomson to Lagadère and Daewoo Electronics. However, officials said the period for competitors to object had expired without any doing so. *Emma Tucker, Brussels*

Malta seeks EU free trade

Malta still wants closer ties with the European Union, including an industrial free trade zone, according to its new foreign minister, Mr George Vella.

The island's Labour government, elected last month, does not see "how Malta could possibly become a full member – as things stand, or in the foreseeable future". Mr Vella said in London yesterday. But it has not formally withdrawn the application for full membership lodged by its predecessor, "because we didn't want to give the wrong signals". *Edward Mortimer, London*

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Bankruptcy threat seen as part of a drive to snatch enterprises

Lada boss hits at Kremlin élite

By Chrystia Freeland in Moscow

One of Russia's top industrialists yesterday accused the government of trying to divide up the country's most prosperous companies among "a narrow group of clans", after a cabinet minister threatened to push Avtovaz, ailing manufacturer of the Lada car, into bankruptcy.

The government said on Tuesday that Avtovaz could be forced into bankruptcy *for failing to pay its taxes.* But yesterday Mr Vladimir Kadannikov, chairman of Avtovaz, struck back, dismissing the threat as a pretext for the ruling elite's effort to divide the nation's most lucrative enterprises amongst its members.

"The motivation for this is a new turn in the wheel of the division of the nation's assets which threatens to transfer them all to narrow, already established clans," Mr Kadannikov, a former deputy prime minister, said in a statement issued from his factory headquarters in provincial Russia.

Mr Kadannikov's accusation could be the opening shot in a fresh battle between Russia's Soviet-era factory managers and a *group of seven Moscow* bankers and businessmen which has risen to prominence after financing and masterminding President Boris Yeltsin's re-election.

Over the past few days, members of the "group of seven" have been given control over some of Russia's most attractive companies, including its second largest retail bank and the national telephone company.

The bankruptcy threat was issued by a prominent member of the Moscow group, Mr Vladimir Potanin, a first deputy prime minister. Mr Potanin, who is spearheading a campaign to boost tax collection, said Avtovaz would be forced into bankruptcy if it did not pay its federal tax arrears of *nearly Rbs3,000bn ($546m).*

Mr Potanin said that the factory's managers had rejected the government's proposal to pay off Avtovaz's tax arrears from the sale of a 50 per cent stake in the already privatised company to a strategic investor.

In its bid to increase government revenues, whose low levels have led to a delay in the disbursement of a loan from the International Monetary Fund, the cabinet has threatened dozens of companies with bankruptcy.

In all but a handful of cases, the threat has been dropped after a combination of last-minute tax payments and political lobbying by the enterprises.

The charges levelled against Avtovaz, which has *sold 563,000 vehicles* this year, could have more serious consequences, because of the size of the company and because of the government's apparent intention of wresting ownership away from its current bosses.

Germany closer to strike over sick pay

By Wolfgang Münchau in Frankfurt

The leader of Germany's engineering employers took a hard line yesterday after trade union leaders threatened strike action next year in a row over sick pay.

Mr Werner Stumpfe, president of Gesamtmetall, the engineering employers' federation, said the future of the regional wage bargaining system in Germany was at stake.

His comments followed the breakdown of the engineering wage round in North Rhine-Westphalia, Germany's most populous state. IG Metall, the engineering union, had hoped that the negotiations on behalf of 850,000 employees would act as a blueprint for the rest of the country.

Negotiations had previously broken down in Baden-Württemberg, another centre of the German engineering industry. In both cases, the two sides had come close to reaching a framework agreement but failed because of sharp differences over sick pay.

German union leaders, anxious to retain payments at 100 per cent of wages, are now threatening wide-scale industrial action after Christmas. In North Rhine-Westphalia a strike could begin in late January, at the end of an obligatory "peace period" during the negotiating process, when unions are not allowed to call industrial action.

Mr Stumpfe yesterday warned IG Metall that a strike would endanger the system of collective bargaining.

"If IG Metall pursues a course of conflict to force a decision through industrial action, it will have to carry the responsibility for an economic downturn and the destruction of the regional wage bargaining system in the German engineering and electrical industries," he said.

He also warned that a strike would end any hope of a nationwide deal on sick pay. A recent change in German law cutting minimum statutory sick pay from 100 per cent of wages to 80 per cent has given rise to a legal dispute between trade unions and employers over the status of existing labour contracts.

The talks in North Rhine-Westphalia collapsed after employers rejected a complicated formula which would have tied the level of Christmas bonus payments to the level of absenteeism through sickness.

Mr Stumpfe yesterday outlined the difficulties associated with an industry-wide formula because it was almost impossible to agree a solution that would not lead to cost increases for some groups of employers. The change in the sick pay laws means some employers only pay the 80 per cent statutory minimum, while others continue to pay the full level.

If employers were to agree to a compromise figure, such as 90 per cent, some employers would be penalised, he argued. Gesamtmetall is determined to prevent another wage cost rise in 1997, after two years during which costs rose by 11 per cent.

Brussels firm on car parts market

By Emma Tucker in Brussels

The European Commission has refused to withdraw its proposals for creating a single market in car spare parts, resisting pressure from a majority of EU governments to leave existing barriers in place.

At a meeting in Brussels on Tuesday, Mr Mario Monti, single market commissioner, insisted the market for parts such as wing mirrors and windscreens had to be opened up for the benefit of consumers.

"I am aware difficulties can arise when adapting to new rules necessary to ensure the single market becomes a reality; I was ready to agree to a transitional period for the entry into effect of the new design rules," Mr Monti said. But "we should not forget the many advantages the opening-up of markets and greater competition bring to the economy."

The draft legislation, which would allow independent spare parts dealers to sell their products in all 15 EU member states, forms part of a wider draft EU law aimed at harmonising the legal protection of industrial design.

The rules protecting design of car spare parts differ greatly between member states, which throws up barriers to trade. No design protection for spares exists in the UK and car owners can seek repair parts wherever they like. Consumer groups and insurance companies say such competition has cut the prices of components most likely to need replacing after a crash.

By contrast, carmakers in France have a monopoly on spare parts, forcing consumers to return to the original manufacturer when replacing one.

Because of the Commission's refusal to back down, the draft legislation must return to member states for further work.

Dutch in an EU tangle over drugs

Liberal policy on soft drugs may impede the Netherlands' presidency, reports Gordon Cramb

The Dutch government is worried that its presidency of the European Union for the first half of next year may be impeded, even before it starts, by attacks from other member states on its tolerant policy towards "soft" drugs.

The outgoing Irish presidency, at the strong urging of France, is preparing a draft policy document aimed at combating the traffic in illegal drugs within the EU's increasingly open internal borders. This is to be put to EU justice and home affairs ministers meeting in Brussels today and tomorrow.

Unless the text of the draft joint action is watered down to the point where the Netherlands can continue to sanction the use and small-scale sale of cannabis, the conflict threatens to spill over to the Dublin summit next month, and beyond.

The problem for France is that the Netherlands' liberal policies towards soft drugs has led to a stream of French couriers buying cannabis in the Netherlands without penalty and importing it into France, where it is outlawed. This has led France to hold back on implementing fully the Schengen agreement on removing border controls.

France would like drugs laws in the 15 EU states to be brought into line with each other to stop this cross-border trafficking.

The Dutch and French yesterday appeared still far apart as earlier optimism waned that a formula acceptable to both could be found. As part of a work programme carried over when it assumes the presidency in January, The Hague may thus find itself encumbered with the issue.

Although measures to combat drug addiction form part of its own agenda for the six months, as outlined last week by the foreign ministry, the Dutch authorities would prefer that this addresses less specific goals like "the exchange of experience among member states about research methods, information and provision for specific target groups".

Above all, they do not want it to deflect their efforts to conclude the intergovernmental conference on economic and monetary union with a Treaty of Amsterdam next June. This would secure the foundations of the single currency project and crown their presidency in a similar way to the Maastricht treaty of 1991, when the Dutch were last in the chair.

Since then, full implementation of the Schengen agreement, allowing borderless travel for people and goods across continental European countries which subscribe to its principles, has been stalled by Paris mainly because of the Netherlands' drugs policy. The French government has maintained controls on its frontier with the Benelux customs union in order to stem what it says is a southward stream of couriers conveying cannabis and other hallucinogens of Dutch origin into France.

Amsterdam coffee shops: municipalities have been given greater powers — Tony Andrews

The Hague is happy to harmonise policy on international trafficking, including a closer alignment of penalties available to the courts for those convicted. But an otherwise largely Europhile government is resisting externally wrought changes to domestic legislation.

It maintains that the decriminalisation of cannabis use in the 1970s, tolerating home growing of the plant and its availability for sale in urban "coffee shops", has put a healthy distance between young people and street dealers who in other countries may seek to lead them on to more addictive – and thus lucrative – substances such as cocaine and heroin.

Dutch officials say the number of recorded hard drug addicts, at 0.16 per cent of the population, is significantly below average compared with other EU countries, including France and the UK.

Nonetheless, the authorities have recently acted to tighten several aspects of drug policy. Mr Wim Kok, prime minister, last week secured greater powers for municipalities to shut coffee shops deemed to be a public nuisance. Under a 1995 initiative the maximum amount of cannabis per sale was cut to 5 grams, a sixth of its former level, and the number of permitted outlets was intended roughly to be halved.

But mass closures have not yet occurred, and purchasers can go from one such café to the other to accumulate a bigger supply. The effect of measures to curb availability at source – such as the introduction of a scanner for containers entering Rotterdam port – has been diluted by advances in greenhouse cultivation technology. Under strong lights in the Netherlands' otherwise inhospitable climate, this allows larger scale production domestically.

Under one idea which has received renewed currency, coffee shop purchases of cannabis could be restricted to Dutch nationals. Police inspecting such establishments are already entitled to demand identification from customers. France might then be satisfied in the knowledge that its citizens were forbidden to buy the drug.

This would shift the burden of enforcement from French customs officers on to Dutch police. The Hague would get no guarantee that the rancour would thereby abate.

Mr Kok retains a veto in Dublin but will be reluctant to use it directly ahead of the Dutch presidency, and especially on this issue. Questions of cross-border crime form part of the so-called third pillar of the Maastricht treaty which the Commission wants to become more subject to qualified majority voting among EU member states. On drugs the Netherlands can, as before, expect to find itself alone among the 15.

Italy is pressed to rethink Euro-tax

By Robert Graham in Rome

Italy's centre-left government is under growing pressure to rethink proposals to introduce a special one-off "Euro-tax" as part of next year's budget.

The tax, unveiled eight days ago, was attacked by the rightwing opposition for hitting the middle class hardest. Members of the ruling Olive Tree coalition also voiced reservations over elements in the fiscal package.

Yesterday, one of the small partners in the coalition proposed a series of changes to the measures. The move, by Italian Renewal (RI), the small centrist party formed by Mr Lamberto Dini, could help establish a bridge with the opposition to rewrite the Euro-tax.

The existing proposal is to raise L5,500bn ($3.66bn) next year by applying a progressive tax on incomes. The levy will begin at 1.5 per cent on employees with a minimum annual salary of L23m, rising to 3.5 per cent on incomes over L100m. For the self-employed, the levy begins on declared incomes of L10m. The government has pledged that up to 60 per cent of this tax will be repaid, beginning in 1999.

One objection from within the government coalition was over the different treatment for the self-employed and wage earners. Several jurists said the absence of equality in paying taxes could be challenged in the constitutional court.

Yesterday's proposal by RI sought to remove this problem by fixing a minimum contribution level of L20m for both categories. The RI also proposed to reduce the amount paid by those on annual incomes below L100m.

The 1997 budget is now in a committee in the Senate, where the government has a majority, making it comparatively easy for any revision of the Euro-tax.

South Africa breaks off relations with Taiwan

By Roger Matthews in Johannesburg, Laura Tyson in Taipei and Sophie Roell in Beijing

South Africa is to sever diplomatic ties with Taiwan in order to establish full diplomatic relations with China, President Nelson Mandela said yesterday.

He said the break with Taiwan would come at the end of next year, but all other ties would remain.

The decision is another success for China's refusal to establish diplomatic relations with governments which do not break with Taiwan. But for the Taiwanese it is a serious blow as South Africa is probably the most important of the 28 countries with which it still has full diplomatic links.

Mr Peter Cheng, Taiwan foreign ministry spokesman, "regretted" Mr Mandela's decision to break ties with the Republic of China – Taiwan's official name – and called on Pretoria to reconsider.

Mr Cheng said the loss of Taiwan's biggest diplomatic ally "severely damaged" the friendly ties between the two countries.

But when asked whether the move would affect Taiwanese investments in South Africa, he responded: "I don't think so."

Although it was thought inevitable that Pretoria would bow to the demands of Beijing eventually, the timing of the move came as a painful shock to Taipei, which was reasonably confident that ties would be maintained as long as Mr Mandela remained in power.

However, the South African president declared yesterday that maintaining the relationship with Taiwan was "inconsistent with South Africa's role in international affairs".

The decision, over which he has agonised for more than two years, came after repeated assertions that he would not desert old friends.

The links between South Africa and Taiwan were initially forged while they were both shunned internationally. But Taiwan's substantial contributions to the ANC election fund in 1994 left Mr Mandela with a political debt he has been reluctant to disown.

Trade between China and South Africa has grown rapidly in the last three years, and the handover next year of Hong Kong will add further to its importance. South African figures suggest that trade with China and Hong Kong now exceeds that with Taiwan, which last year was put at just over R5bn ($1bn).

However, there are about 280 Taiwanese-owned factories in South Africa, valued at more than R1bn and employing 45,000 workers. As part of an intense campaign to maintain the South African link, the Taiwanese government and companies had pledged substantial additional investment.

This was particularly aimed at assisting the government's reconstruction and development programme, but more recently was widened to include the possibility of a petrochemicals complex.

In 1994 the Taiwanese also contributed $10m to the election campaign of the African National Congress headed by Mr Mandela, and at least 100 South African MPs have been official guests of the government in Taipei in the past two years.

But despite their generous financial assistance, the Taiwanese were losing the battle both within the South African foreign ministry and the business community, where the size and potential of the Chinese market was the paramount concern.

Investors offered lure of tax holiday as economy slows

By Roger Matthews

The South African government yesterday introduced a package of tax concessions and export incentives designed to stimulate investment, improve the balance of trade, and make the economy more competitive internationally.

Economic growth has slowed this year to about 3 per cent, with forecasts for 1997 further reduced to little more than 2 per cent following the Reserve Bank's 1 percentage point increase in interest rates last week to 17 per cent.

Mr Alec Erwin, the minister of trade and industry, said the measures were the best and most complete ever offered in South Africa, and gave business the opportunity to bring about the changes in the economy that were needed.

He said that from January the government would introduce a "one-stop" agency for foreign investors. "We will hold their hand through each stage of the investment process. It will be in line with the best international practice."

Under the new regulations, foreign and local companies can qualify for a tax holiday of up to six years on the income arising from new investments, provided they meet the qualifying criteria. These include the number of jobs created in relation to the total investment, the geographical location of the new plants, and the type of industry. Meeting each of the three criteria brings a two-year tax holiday, making six years in total.

Mr Erwin said that, together with accelerated depreciation allowances, this could in effect extend the tax holiday to nine or 10 years. The ministry of trade and industry has issued an extensive list of industries, from food processing to motor manufacturing, which qualify for the concessions, together with those parts of the nine South African provinces which fall within the scheme.

The minister said that if all relevant information was included in an initial application, he hoped decisions would be reached within four to six weeks.

The government is also to assist the creation of small and medium-sized enterprises through a development programme which can provide both an initial grant and subsequent output incentives.

Smaller companies are also to be assisted with export finance.

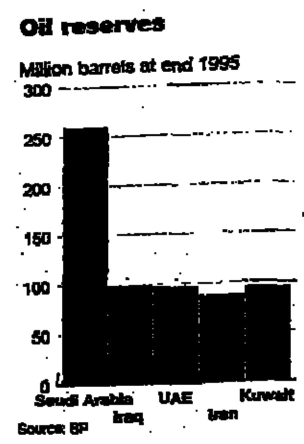
Mr Erwin said that such companies had traditionally found it difficult to exploit overseas markets because banks had been reluctant to provide finance. Pre-shipment finance would now be made available following an agreement between the ministry, the Credit Guarantee Insurance Corporation, and the commercial banks.

This would enable small and medium-sized enterprises to apply for loans of up to 90 per cent of the value of the export order. To qualify a company must be independently owned and not have assets of more than R5m ($1m), or more than 200 employees.

Sceptical traders push up oil price despite Iraqi deal

By Robert Corzine in Vienna

Eggs on sale in Baghdad yesterday: Iraqis are hoping the oil-for-food deal will improve living standards Associated Press



Oil prices rose for the second day running yesterday in spite of the prospect of an early return of Iraqi exports to world markets under a newly resurrected United Nations oil-for-food plan.

The price of Brent Blend for January delivery, the North Sea crude that serves as a global benchmark, was up more than 12 cents a barrel to $22.53 in afternoon trading in London yesterday. Brent has been stronger since Monday, when oil prices fell after Iraq's sudden decision to accept UN terms opened the way for a resumption of the limited oil export programme.

Preparations for the plan were put on hold last September after President Saddam Hussein sent troops into rebellious Kurdish areas in northern Iraq.

Traders said the latest rally was based in part on scepticism that Iraq was genuinely committed to the UN plan. They pointed to the suddenness of Baghdad's decision, and the fact that some senior Iraqi officials based overseas were apparently caught unawares that a big shift in Baghdad's policy was in the offing.

"The market has given a resounding Bronx cheer to Iraq's return," said Mr Peter Gignoux of the London office of US brokers Smith Barney.

The scepticism evident in the markets was echoed by delegates at yesterday's opening session in Vienna of the winter meeting of the Organisation of Petroleum Exporting Countries. Some speculated that Iraq may have wanted to disrupt the Opec conference. Others suggested that a sudden political development in Baghdad could have prompted Mr Saddam's policy reversal.

But few traders seemed worried even if Iraq proved genuine in its desire to abide by the UN plan. "The markets don't believe Iraqi oil exports will happen right away," said Mr Oystein Berentsen, who manages international crude trading at Statoil, Norway's state oil company. "But if the cold weather continues in Europe and the US and Asian demand remains high, the markets may actually need" the half million or so barrels a day that Iraq would be required to export to meet the UN revenue target of $2bn every six months.

Mr Gignoux saw the possibility of a "showcase cargo" of Iraqi crude being exported before the end of the year from the 12m barrels of Iraqi oil that Turkish officials say is stored at the Turkish port of Ceyhan.

Another factor behind the relatively relaxed reaction to Iraq's move is a growing belief among some Opec producers and industry analysts that the current oil price strength may prove more resilient than previously thought.

Over the past two years oil prices have been generally confined to a $15-$20 a barrel range. But there is a school of thought that includes some big Gulf Arab producers that the range has moved upwards to $20-$25.

Mr Michael Rothmann, an analyst with Merrill Lynch in New York, believes key Opec states such as Saudi Arabia have come to realise that the higher range is sustainable without "causing economic growth in the G7 countries to falter".

At yesterday's meeting, Opec states were warned against being complacent about the dramatic improvement in the group's fortunes this year. But delegates from key producing states had little appetite to tackle any new policy initiatives. "We're looking for a quiet time," said one Gulf delegate. The conference is expected to maintain Opec's production ceiling at 25.03m b/d.

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Referendum bid to finesse role of religion in Algeria

Will today's vote bring peace and democracy to a troubled country or institutionalise dictatorship? Roula Khalaf reports

To Algeria's opposition it is an attempt to institutionalise dictatorship. To the army-backed government it is a step towards peace and democracy.

Either way, it is questionable whether today's referendum to amend the constitution, boost presidential powers and ban parties from exploiting Islam in politics will make an impact on a country wracked by seemingly insoluble violence.

The proposed amendments seek big changes to the 1989 constitution, which marked the end of Algeria's one-party rule and led to a few years of unfettered liberalism.

The experience turned sour, however, when the first multi-party legislative elections in 1991-1992 threatened to give the Islamic Salvation Front (FIS), an Islamist party bent on breaking the army's hold on power, a majority in the national assembly.

The army cancelled the second round of elections and banned the FIS. Algeria erupted in violence that has so far claimed more than 50,000 lives.

A reading of the text of the referendum suggests the Algerian government has two broad goals in mind. First, it is seeking to appropriate Islam for its own use while preventing parties from exploiting it to further their appeal.

The new constitution would ban parties based on religion, gender, language, and regional differences. But, at the same time, it appears to expand rather than curb the role of Islam in society. The amendments allow for the creation of a higher Islamic Council and state that institutions should not engage in practices contrary to "Islamic morals".

Ironically, two legal and moderate Islamist parties are among the few not actively opposing the amendments. These parties are expected to be allowed to continue under the new constitution, after changing their names and perhaps altering parts of their platforms. But the new constitution will offer the government a mechanism to suppress them when it estimates their appeal has widened enough to represent a threat.

With the government's heavy campaigning and control of mass media, the outcome of today's vote is likely to be a Yes

Second, the proposed changes enshrine in the constitution ideals of democracy, freedom of expression and multi-party politics. Yet they reduce the powers granted to the elected national assembly in the 1989 constitution, while expanding those of the president. The new constitution proposes the creation of a second chamber of parliament, in which two-thirds of members are indirectly elected from representatives of local assemblies and a third made up of professionals designated by the president. Its decisions, moreover, require a three-quarters majority.

The new constitution allows only two terms for the president. But the president names the head of the second parliamentary chamber as well as that of the Higher Council for Religion. If parliament fails to agree on a budget law within 75 days of its submission, the president will step in and promulgate it by decree.

Algeria has been committed since 1994 to an International Monetary Fund programme of economic reforms. An article in the new constitution places a cap on public spending. Another specifically affirms a state role in "the organisation of foreign trade".

After their calls for a boycott of last November's presidential elections were ignored, the Algerian opposition this year agreed to re-engage in a dialogue with the presidency to set the country's future political programme and agree a way out of the security crisis. All parties admit they have little choice but to take part in the legislative elections scheduled for next year.

Opposition leaders, however, say that the continuing muzzling of the press and the harassment of political parties have removed any hope that the intention of the Algerian regime is for a real opening of the political field.

But with the government's heavy campaigning and its control of mass media, the outcome of today's vote is likely to be a Yes.

The vote turnout, however, is the unknown. Last November Algerians ignored boycott calls and threats by radical Islamist groups and turned out in large numbers to vote for Mr Liamine Zeroual, the army candidate. Their vote was an expression of hope that Mr Zeroual might bring an end to the violence. A year later, however, massacres of civilians are a daily occurrence. And complaints of social and economic grievances continue to mount.

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Syria rejects Israeli demand to restart talks from scratch

By David Gardner, Middle East Editor

Syria is prepared to resume peace negotiations with Israel – but only from the point they had reached under the former Labour-led administration.

Mr Farouq al-Shara'a, the Syrian foreign minister, made this clear in London after talks on Tuesday with Mr Malcolm Rifkind, the UK foreign secretary.

Syria has always insisted that the price of peace is full restoration of its sovereignty over the Golan Heights, captured by Israel in the 1967 six-day war. Mr Netanyahu has rejected the "land-for-peace" principle – the foundation of the Middle East peace process – and says he wants to start talks with Syria from scratch.

But Damascus is now making clear that it will not retreat from the partial agreements reached with the previous Israeli government, which were not consolidated into an overall agreement by the time of the Likud election victory in May.

Mr Shara'a said that when the talks stopped, Israel, "with the acknowledgement and participation of the US", had agreed to a full withdrawal from the Golan to its pre-1967 borders, and to "the principles and objectives of the security arrangements" which would follow withdrawal. "To do that," the minister added, "you obviously have to know where the borders are."

Israeli and US officials say that documents confirming this degree of agreement are held in Washington, unsigned by either side. Mr Netanyahu says Israel is in no way bound by what were merely the negotiating positions of his Labour predecessors.

Challenged to publish the agreements, Mr Shara'a said: "It is in our interest to do so, but Israel said No until full agreement on other issues."

Full agreement, however, looks more and more distant, as Mr Benjamin Netanyahu's Likud-led coalition of ultra-nationalists, religious fundamentalists and settlers has just sanctioned more Jewish settlements on the Golan.

Since August, both sides have made each other nervous through troop movements in the Golan area, leading to rumours of renewed war for the Heights.

Mr Shara'a said that when the talks came to a halt in February "we were discussing detailed security arrangements and guarantees on the ground." Security was the key element in Mr Netanyahu's election platform.

Israel and Syria reached a US-arranged disengagement agreement on the Golan after the 1973 Yom Kippur war, since when not a shot has been fired in the contested area.

Uncertain future for Asian cars

By John Griffiths in London

Car sales in the Asia-Pacific region will grow much more slowly than many industry analysts have predicted, resulting in a huge over-capacity problem as early as the year 2000, according to research by the Economist Intelligence Unit.*

Sales growth will still be considerably faster than in the saturated car markets of the *developed world*. But although Asia-Pacific countries have large populations and relatively few cars per head, there are still many barriers to car sales growth, the research points out.

Notable among these is that average incomes are still below the normal take-off level for car purchase in every country other than Taiwan and South Korea; that the infrastructure of most countries is unable to cope with very high growth rates and will take time to develop; and that, for many individual buyers, light commercial vehicles will remain a more practical purchase than conventional cars.

Against this background, the EIU is forecasting that car sales in the region will grow from an estimated 3m units this year to 5.2m in 2005 – "little more than half that expected by many in the industry who predicted a market of 10m units or more".

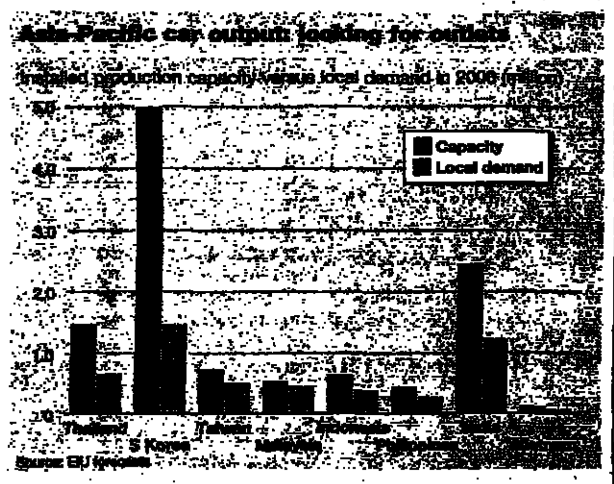
In the year 2000, car registrations are forecast by the EIU to reach 3.9m, with a further 3.5m registrations of commercial vehicles. By this time, the research warns, total vehicle manufacturing capacity in the region will have reached 13.8m – 84 per cent more than the regional market will be able to absorb.

The consequence of this over-capacity is not likely to be welcomed by western vehicle producers: an intensified export drive into *developed markets* by companies such as Daewoo, Hyundai and Samsung of Korea, and other rapidly expanding players such as Proton of Malaysia.

Proton last month bought UK sports car and engineering concern Lotus with the aim of using its expertise and technology to develop a broader range of vehicles, to be pitched at European and other export markets.

At the start of the 1990s Asia-Pacific was the world's fastest-growing vehicle market. However, in the last two years the rate of growth has slowed by two-thirds, with vehicle sales estimated to have increased by just 2.8 per cent this year – less than Germany or Japan. Demand for cars in China, the region's second-largest market after South Korea, has been lower this year than in 1993.

● **The Emerging Automotive Markets of Asia-Pacific. The Economist Intelligence Unit, 15 Regent St., London SW1Y 4LR. £595/$945.*



Rich and poor head for WTO summit clash

By Frances Williams in Geneva

Weary trade diplomats were yesterday evening making a last effort to agree the draft declaration that will wrap up the World Trade Organisation's first ministerial meeting in Singapore next month.

But officials said the thorny issues of labour standards, textiles, investment rules and competition policy would almost certainly be left for ministers to haggle over when they meet between December 9 and 13.

The apparent failure of WTO ambassadors to break the deadlock after three days of round-the-clock negotiations increases the risk of a damaging North-South split in Singapore, which will bring together ministers from the WTO's 125 member nations.

No further talks on the declaration are planned in Geneva.

Developing countries have been implacably opposed to WTO involvement in promoting basic worker rights, as urged by the US, the European Commission and Norway.

A hardline group of about a dozen countries, led by India, Malaysia and Indonesia, has objected to any mention of labour standards in the ministerial declaration, even though the latest draft makes no reference to further WTO work on the issue.

These countries argue that the WTO has no business discussing worker rights which they say are a matter for the International Labour Organisation.

However, the US and EU maintain that some sort of political declaration on labour standards is needed to maintain support for the multilateral trading system in industrialised countries where many workers feel threatened by low-wage competition abroad.

The same developing country group is also resisting the inclusion of any new issues such as investment and competition policy on the WTO's future work programme, arguing that the world trade body should focus for now on implementing the Uruguay Round global trade agreements.

They and other Third World nations are particularly angry at decisions by Washington and Brussels to postpone to the last possible moment the lifting of restrictions on textile and clothing imports which are subject to a 10-year phase-out.

However, the US and the EU have blocked their demands for stronger language on textiles in the ministerial declaration.

Trade officials said yesterday that agreement appeared to have been reached on the wording of the declaration relating to trade and the environment, but that Argentina had come up with last-minute objections to the text on agriculture.

Earlier this month Argentina held up agreement on the report to ministers of the WTO's agriculture committee because it did not go far enough in preparing the ground for planned negotiations in 1999-2000.

Taiwan plan to restore China shipping link

By Laura Tyson in Taipei

Taiwan has unveiled a three stage plan designed to restore direct shipping links with China, severed since 1949.

The Mainland Affairs Council, the cabinet-level agency charged with shaping the island's China policies, said an "offshore" shipping centre would be established first, followed by a special economic and trade zone and finally direct shipping.

A plan for designated "offshore" shipping centres in key Taiwanese ports was first announced by Taiwan's transport ministry in May 1995, but the new plan is the first government mention of a phased resumption of shipping links involving special economic zones.

The chances of a positive response from China look slim in the short run, since Beijing rejected the original offshore shipping centre proposal. However, analysts said the promise of a phased resumption of direct links appeared to be an effort to narrow the gap between the two sides.

Beijing recently released its own version of guidelines for the eventual re-establishment of direct shipping ties between the old foes, but these were unacceptable to Taipei because the mainland insisted on the routes being designated as domestic under its one-China policy.

This issue has become more pressing since Evergreen, the Taiwanese shipping concern which is also one of the world's largest, began building up its mainland business.

Evergreen has been building container terminals in Chinese ports and this week its subsidiary, Evergreen Marine, announced plans to begin new routes next year for the transport of Chinese goods from the Chinese ports of Shanghai, Qingdao and Tianjin to US and European destinations on a weekly basis.

The routes will add to Evergreen's existing regular routes linking Japan's Osaka with ports in northern China and Hong Kong with southern Chinese ports. The plan awaits Chinese government approval.

Taiwan's trade and investment ties with China have grown dramatically since the late 1980s, when relations between the two sides began to thaw. But the improvement in ties came to a standstill in June 1995 after China objected to a visit by Taiwan's president, Mr Lee Teng-hui, to the US.

Although significant political differences remain between Beijing and Taipei, both sides would like gradually to open direct shipping across the Taiwan Strait but have been unable to agree on the terms.

Hong Kong's return to Chinese sovereignty next year has raised hopes among Taiwan's business community for a speedy resumption of direct shipping, but the Mainland Affairs Council indicated that the issue of Taiwan's shipping links with Hong Kong would be treated separately from cross-strait links.

WORLD TRADE NEWS DIGEST

Vietnam nears US air deal

Hanoi has broken a two-year impasse in talks with the US aimed at establishing air links between the two former enemies by saying it might allow US airlines to pick up passengers en route to and from Vietnam and America.

Mr Pat Murphy, deputy assistant secretary at the US department of transportation, said so-called "fifth-freedom" rights were mentioned as a possibility in a draft aviation agreement handed over in Washington last week by the country's top aviation official, Gen Nguyen Hong Nhi.

"We have seen a lot there that we find to be helpful and forward looking," he said.

The negotiations have been stalled for two years by Vietnam's refusal to grant fifth freedom rights and insistence that the US designate one carrier on routes to the communist-ruled country.

Hanoi fears that allowing more than one US airline into Vietnam will threaten Vietnam Airlines' lucrative grip on most international routes out of the country.

Washington has said that restricting fifth freedom rights renders the Vietnam route uneconomical. Delta Airlines, United Airlines and Northwest Airlines are interested in a US-Vietnam route. Federal Express is also thought to be considering it.

However, Gen Nhi's document did not address the issue of the number of carriers, Mr Murphy said. The US government would study it further before moving ahead, possibly in "one or two months". *Jeremy Grant, Hanoi*

Turkey cancels helicopters

Turkey said yesterday it had cancelled an order for 10 Cobra helicopter gunships from Washington that would have been used against Kurd guerrillas.

"We informed the US officially that we have decided not to buy the Cobra helicopters," foreign ministry spokesman Mr Sermet Atacanli said.

No reason was given for the cancellation of the order from Textron Bell Helicopter. Turkish officials have often complained about a delay in handing over the helicopters.

US-Turkish relations came under increasing scrutiny and criticism in Congress earlier this year, particularly because of Ankara's treatment of Kurds seeking autonomy.

A coalition of Democrats and Republicans has blocked the normally routine sale of the attack helicopters to Turkey, saying they might be used to attack Kurdish rebels. More than 21,090 people have died in the conflict since 1984. *Reuter, Ankara*

Koreans win power contract

South Korea's Hyundai Heavy Industries said yesterday it had won a $200m contract from GMR Vasavi of India to build a diesel power plant in Madras.

The plant, with a capacity of 200MW, will employ a new sewage treatment system, according to a Hyundai official. The new system would allow the power plant to use sewage after it was purified, he said.

Construction is scheduled for completion in late 1998. Hyundai Heavy Industries is the shipbuilding and heavy machinery arm of South Korea's leading conglomerate Hyundai Group. *AP-DJ, Seoul*

Brazil signs São Paulo debt refinancing deal

By Geoff Dyer in São Paulo

Brazil signed an agreement yesterday to refinance the R$37bn (US$35.9bn) debts of the state of São Paulo, reviving the prospect that Banespa, the heavily indebted bank controlled by the state government, will be privatised.

The long-awaited solution to the debts of Brazil's richest state was welcomed by economists, who said the federal government had taken a decisive step towards reducing the country's budget deficit.

Mr Pedro Malan, finance minister, said the accord showed "the federal and state governments can work together to solve such a serious problem".

Under the deal, the national government will refinance 80 per cent of the state's debts by issuing 30-year bonds with the relatively low real interest rate of 6 per cent. The São Paulo government has to pay back the other 20 per cent of its debts – equivalent to more than R$7bn – through sale of assets, including railways, airports and Latin America's largest electricity system.

In the initial stage of the agreement, São Paulo will transfer a 51 per cent stake in Banespa to the national government for one year. The stake will then be valued independently. If São Paulo does not exercise its option to repurchase the stake at the end of the year, the federal government will be able to privatise Banespa.

Analysts said that although Banespa's future was still uncertain, privatisation was the most likely option. "Mário Covas [governor of São Paulo state] would have to justify to his voters why he was spending R$7bn-R$8bn on buying a bank instead of building houses," said one.

The agreement is the latest stage in a long tug-of-war between state and national governments over the fate of Banespa, which was put under central bank control in 1994 after it nearly collapsed with R$18bn of doubtful loans advanced to São Paulo state. At the time it was Brazil's second largest bank in terms of net assets.

A preliminary refinancing agreement earlier this year suggested the state government would keep control of the bank, in spite of heavy pressure from the central bank. The federal government was widely criticised at the time for favouring short-term political considerations over the need for fiscal reforms.

However, economists said yesterday the new deal represented a victory for the central bank and finance ministry in their bid to free the banking sector from political interference and to control public borrowing.

The deal has to be approved by both the São Paulo and Brazilian legislatures before implementation.

Recovery slow in Latin America

By Stephen Fidler in Montevideo

Latin America's recovery from the economic setback brought about by the 1995 financial crisis in Mexico has been insufficient to bring down high rates of poverty and unemployment, the InterAmerican Development Bank said in a report this week.

In its annual Economic and Social Report in Latin America, the bank's chief economist's office sees a 3 per cent growth rate this year, up from 0.7 per cent last year, and inflation falling to a median 11 per cent from 13 per cent in 1995.

It notes the increasingly different behaviour of economies within the region in contrast with the 1980s when most Latin countries went through common cycles of recession and recovery. This has arisen because economic adjustment programmes have been introduced at different times in different countries.

According to the report, when governments open and liberalise economies, a temporary boom usually follows.

After three years of recovery, however, a period of stress or crisis emerges, which if successfully managed gives way to a more sustainable growth path.

In 1996, a greater number of countries are entering this stress phase, though there are strong signs governments will be able to manage it. Though growth may look shaky in some countries, macroeconomic fundamentals are improving and access to external capital has been maintained.

The report said the process of structural reform in Latin America "has proven to be durable". But though tax and trade reforms have been deep, reforms affecting financial systems, labour legislation or pension systems have "generally been slow and incomplete".

Yet once the reform process is set in motion, it is hard to reverse. In only one country had such a reversal occurred – a clear reference to Venezuela – but in that case the reform process was re-established later.

The report argues that the region's investment in health and education has yielded disappointing results.

As a share of national income, Latin America spends more on health than any other developing region and comparable amounts on education."While health and education levels in the region have improved, progress has been slow compared to the rest of the developing world."

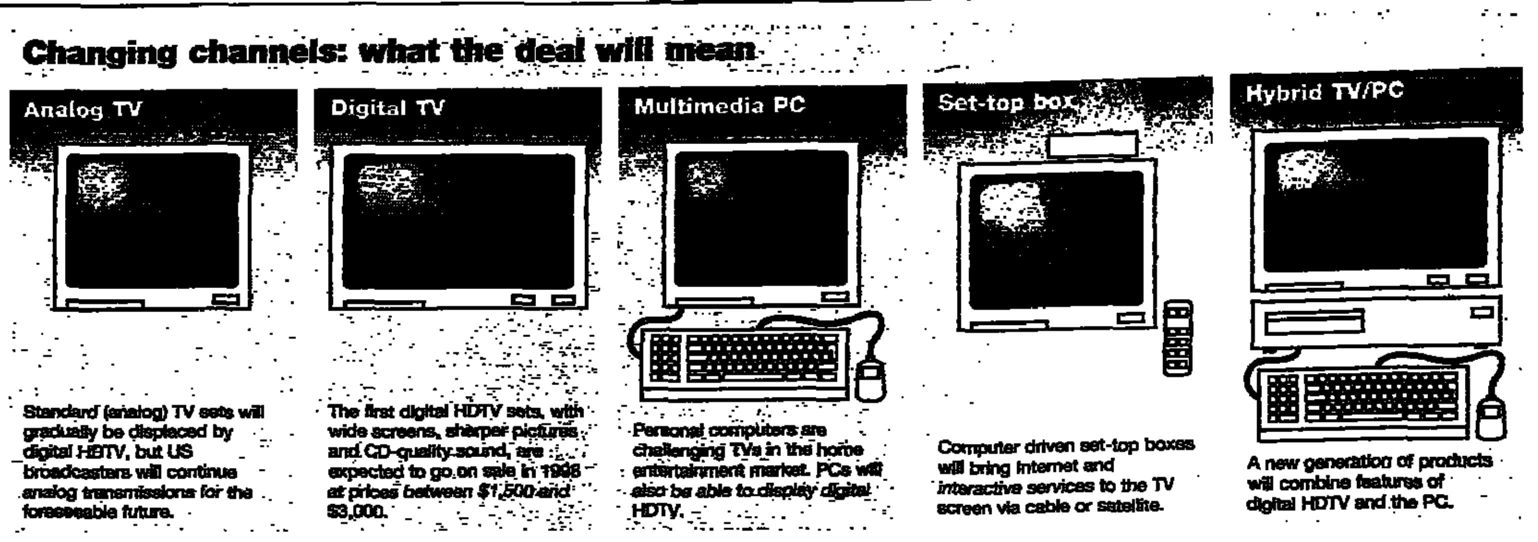
The report recommends reforms to health and education systems and a greater role for incentives. Social service delivery systems should establish clear structures that differentiate the roles of national governments, specialised purchasing organisations, service providers and consumers.

The report has emerged for a second successive year only after a fierce internal debate within the bank and after important changes to its text.

Originally, according to a bank memorandum obtained by the Financial Times, the report was in parts "excessively doctrinaire" and carried an "unnecessarily neoliberal tone". One section had to be changed "to eliminate references to the impact of trade unions and avoid whatever judgment that implies of an anti-trade union prejudice".

Battle for the eyeballs

The US is setting the standard and pace of the digital television revolution, reports Louise Kehoe



The US is set to establish the world's most advanced standards for digital television transmission and reception, leapfrogging the High Definition Television standards of Europe and Japan.

After more than a decade of technology trials, political debate and technical wrangling, the Federal Communications Commission is now expected to approve technical standards for digital TV (formerly called High Definition TV) before the end of the year. This comes after an eleventh hour agreement among TV manufacturers, broadcasters and representatives of the personal computer industry, ending a deadlock that threatened to delay further the introduction of digital TV in the US.

With digital TV standards in the final stages of approval, PC industry leaders raised objections earlier this year, insisting on modifications to suit computer-driven applications of digital TV. These could range from incorporating digital TV reception in a PC, to building computer features into a new generation of "hybrid PC/TVs". The FCC had been reluctant to approve a standard that did not meet the needs of the computer industry. The Clinton administration also weighed in on the side of the PC manufacturers, adding pressure for a compromise.

With an agreement now in place, FCC officials said the commission would move quickly to approve the proposals of the industry group. This means that US TV viewers can look forward to larger, crisper pictures and CD-quality sound on widescreen digital TV sets. The first of these digital TV sets are expected to go on sale in the US beginning in 1998 with prices ranging from $1,500 to $3,000. Prices are expected to come down as sales take off. It will, however, be about five years before most US broadcasters begin digital transmissions, according to an independent study conducted for Harris Corporation, which has developed digital TV transmission equipment. "America can [now] quickly regain its world lead in digital television technologies," said Zenith Electronics, a leading developer of digital TV technology. The core technical standard will be "the world's most flexible, computer-friendly broadcast system".

The establishment of a US standard for digital TV bodes well for TV manufacturers. Yet it is the PC industry that is expected to set the pace in this emerging market. Already, companies such as Microsoft, Intel, Compaq Computer, Apple Computer and Dell Computer have exerted their influence over digital TV by intervening in the standards-setting process.

In the compromise agreement reached this week, TV industry leaders acquiesced to PC industry demands that the critical "video format" portion of the digital HDTV standard be left open. "The market will establish a de facto standard," said Bob Stearns, Compaq Computer senior vice president in charge of technology and corporate development.

Television broadcasters, who had been opposed to any changes to the proposed digital HDTV standards, claimed that they got 95 per cent of what they wanted. "This is a major win for broadcasters and consumers because it will hasten the delivery of digital television to the American public," said the National Association of Broadcasters.

PC manufacturers are also claiming victory. "If the TV industry had had its way, we would have ended up with a standard created in the mid-1980s that would have been 20 years old by the time it reached mass markets," said Mr Stearns. Manufacturers will now be able to develop technologies unhampered by "rigid standards that slow innovation", he added.

The lack of a specific standard for the video format of digital TV is, however, very much to the advantage of the PC industry, which is accustomed to rapid advances in technology and a "may-the-best-man-win" approach to setting standards. In contrast, TV manufacturers must now adapt to faster technology change without a mandated specification for video formats.

The TV industry is expected to face increased competition from PC manufacturers. The PC and TV industries are set to engage in a "battle for the eyeballs" of consumers, Mr Andrew Grove, chief executive of Intel, the leading supplier of microprocessor chips to the PC industry, said last week.

"This is digital convergence," said Mr Stearns of Compaq. Computer and TV companies will both compete and collaborate to develop "hybrid" products that combine computer and digital TV technologies, he predicted. These hybrid products – as well as combinations of digital TVs with attached "set-top boxes" are expected to bring interactive technologies such as Internet access, electronic mail, computer games and electronic commerce into US living rooms soon.

US sees economy expansion falter

Weak consumer spending and reduced production for inventories slowed the US economy's expansion more sharply during the third quarter than previously thought, the Commerce Department said yesterday, Reuter reports from Washington.

Gross domestic product expanded at a revised 2 per cent annual rate in the three months from July to September instead of 2.2 per cent as estimated a month ago. That was less than half the 4.7 per cent pace of increase in national output posted during the second quarter. But it still exceeded Wall Street economists' forecasts of an even more abrupt slowdown in third-quarter GDP to a 1.7 per cent rate.

"This is slightly higher (than Wall Street estimates) but it really doesn't change the assessment of what's happening in the economy," said Mr Larry Chimerine, chief economist at the Economic Strategy Institute.

The Commerce Department cited several factors contributing to the downward revision in third-quarter GDP, including less inventory investment, fewer net exports to foreign markets and slacker consumer spending on costly durable goods such as new cars.

The department released figures for October yesterday showing that total durable goods orders gained 0.1 per cent to a seasonally adjusted $174.2bn, after a revised 4.6 per cent increase in September.

Castro still determined to resist pressure for change

Cuba's veteran president Fidel Castro has taken to wearing smart business suits on his international trips instead of his usual olive-green military uniform.

But as this week's diplomatic row between Havana and Madrid reveals, he has lost none of his fighting spirit and appears as determined as ever to resist foreign pressure for political change, whether from friends, leading trade and investment partners, or enemies.

The rejection on Tuesday by Cuba of a new Spanish ambassador, Mr José Coderch Planas, was portrayed by Havana as a strictly bilateral response to what it described as "unacceptable" Spanish calls for political change on the island. But the sharp Cuban retort to Madrid will be clearly heard by a wider audience.

This includes Spain's fellow-European Union members and Canada. Like Madrid, they strongly oppose recent US moves to curb their growing trade and investment links with Cuba. But they have been lobbying, albeit more discreetly, for faster economic liberalisation, political reforms and human rights improvements on the island.

In a typically defiant speech last weekend, Mr Castro, who has ruled Cuba and resisted US pressure to oust him for more than 35 years, once again flatly rejected calls to scrap one-party communist rule.

The Cuban leader, who turned 70 this year, complained: "Everyone is coming to give us recipes and impose conditions. Who do they think they are? We won't kneel before anyone, nor seek charity from anyone."

It seems inevitable the row with Spain will cloud Havana's relations with the European Union, especially prospects for a future economic co-operation accord. Cuba is the only Latin American nation without such an accord with Brussels.

Cuba indicated on Tuesday it resented a move by Spain's conservative government this month to persuade EU members to place political conditions on any future EU accord with Havana. Spain urged European governments to designate diplomats at their Havana embassies to liaise with Cuban political dissidents.

Diplomats said many EU governments were uneasy about the way the Spanish proposal matched almost exactly recent US recommendations on how to deal with Cuba. Any European overtures to Havana will find it hard to escape from the shadow of the US Helms-Burton law, which threatens to penalise foreign companies investing in Cuba, and lays down a tough US agenda for political transition on the island.

The EU's Irish presidency has toned down the Spanish proposal, removing any directly stated conditionality linking political reforms in Cuba and future EU economic co-operation.

But the agreed text, to be presented to EU foreign ministers in the first week of December, clearly expresses Europe's position that democratic reforms in Cuba are desirable.

This position was also spelled out by the EU on November 12, when its 15 members, united in their opposition to the Helms-Burton law, unanimously backed an overwhelming UN General Assembly vote calling for the lifting of the US economic embargo on Cuba.

The EU voting statement began: "The European Union strongly believes that a democratic system of government must be installed in Cuba as a matter of priority." Predictably, the Cuban leadership welcomed the UN vote but pointedly ignored the appeal contained in the EU statement.

But Cuba's response to outside calls for political reform has its nuances. Mr Castro is clearly irked by the public way in which Spain's prime minister, Mr Jose Maria Aznar, has urged him to "make a move" towards democracy. Mr Castro has responded in kind, accusing Mr Aznar of pandering to the US government and right-wing Cuban exiles.

Havana's response to more low-key diplomatic overtures, for example from Canada, seems initially more receptive. The head of Canada's Commission for Human Rights, Mr Max Yalden, visited Havana this week. His visit to discuss human rights was agreed during a trip to Canada in late October by Cuba's vice-president, Mr Carlos Lage. Whether low-profile Canadian pressure will produce any more results than the brash Spanish line remains to be seen.

Cuban police surrounded the Spanish embassy in Havana on Tuesday, apparently to stop both asylum attempts by Cubans or anti-Spanish protests.

Mr Castro clearly feels his position has been strengthened by recent Cuban diplomatic successes, such as the UN vote and his historic meeting last week with the Pope. He is encouraged by Cuba's apparent trend to economic recovery, though some analysts believe this is threatened by a widening trade deficit and increasing short-term indebtedness.

Cuba's trade and investment partners are hoping that US President Bill Clinton will in January again suspend for six months the full implementation of the Helms-Burton law. But Havana's very public refusal to contemplate political reforms may rob him of one argument to do so.

Pascal Fletcher

Fidel Castro: fighting spirit under a smart suit

Bermuda in new clampdown on money laundering

By George Graham, Banking Correspondent

The Bermuda government plans new legislation to tighten its controls on money laundering.

The Proceeds of Crime bill announced this month in the government's legislative agenda will require banks to report suspicious transactions by customers and will give the government the power to confiscate laundered money.

Mr Grant Gibbons, the finance minister, said the bill would put into law a number of codes of conduct that were already in place and enforced by the Bermuda Monetary Authority.

"We feel that concealing the proceeds of criminal activity is not a problem that any state can solve on its own," said Mr Gibbons.

Bermuda has generally been recognised as one of the cleaner offshore jurisdictions, and does not permit overseas banks to set up "brass plate" offices – with no staff, no local business and no local assets – on the island. The only banks allowed to operate are the Bank of Bermuda, Bank of Butterfield and Bermuda Commercial Bank.

However, the local banks are already grumbling at the additional reporting burdens the new money laundering bill will impose on them, and are expected to lobby hard on its precise terms. In its current form, the bill covers laundering of money from a range of criminal activities, not just drug money, which in some jurisdictions is the only sector covered.

Vietnam faces fall in oil output

By Jeremy Grant in Hanoi

Production at Vietnam's biggest oil field is likely to drop sharply in 2000 and taper off after then, threatening to punch a large hole in the country's already fragile balance of payments, oil industry officials and analysts said yesterday.

Crude oil is the country's largest single source of foreign exchange revenue, earning the government about $1bn last year. Any drop in output at the field, known as Bach Ho (White Tiger), would seriously affect currency inflows as it accounts for about 85 per cent of Vietnam's total crude oil production.

The communist-ruled country can ill-afford any worsening of its debt profile. Official figures released yesterday show that its trade deficit widened to a record $3.59bn from January to November 15, against $2.3bn in all of 1995.

Its current account deficit is expected to reach 12 per cent of gross domestic product from 10 per cent last year, a level which the World Bank has said is unsustainable in the medium term. It put foreign exchange reserves at end-1995 at about $1.4bn, enough to cover 2.3 months of imports.

A PetroVietnam official yesterday said output was expected to dip but the company *hoped to rescue* the field by installing new technology that would maintain current levels until about 2005. Hanoi is expected to pump 181,000 barrels a day this year, up from 164,000 b/d *last year*.

PetroVietnam is in talks with Mobil Oil of the US about a deal under which this might be possible. They are expected to end next month, and are centred around financing the $100m-$200m project.

"We are finding ways of keeping production up. We'd like to increase it to keep the same production of some years ago," said the official, who requested anonymity.

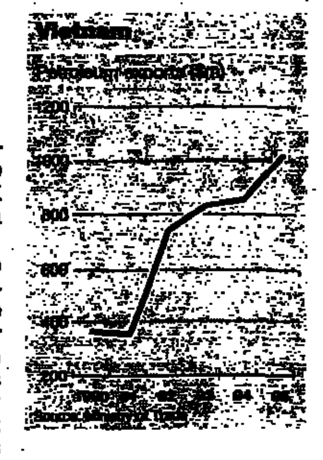
Even if the Mobil plan works, *some say this would* not be enough to stem what they fear could be a gradual decline in Vietnam's output.

Foreign explorers flocked to Vietnam in the early 1990s, drawn by the prospect *that it would be south-east* Asia's next oil bonanza. However, only Mitsubishi Oil of Japan and Malaysia's Petronas have commercially viable finds and there is little prospect of oil coming on stream soon elsewhere.

"They don't have that much in the way of immediate reserves that can be put on stream quickly," said Mr Al Troner, managing director of Kuala Lumpur-based Asia Pacific Energy Consulting. Earlier this year Anglo-Dutch *giant Shell*, *Lasmo* and British Gas of the UK pulled out of oil exploration after finding nothing.

Vietnam might be able to rely on production at Mitsubishi's Rang Dong field were *it not* for uncertainty over its potential. It is thought to contain about 500m barrels and could be Vietnam's only hope for sustaining current output levels. However, its geological complexity casts doubt over forecasts.

Some analysts point out that PetroVietnam made no mention of the possibility of a drop in production at Bach Ho until now. They worry that this implies the government may not be taking the drop into account when planning the economy. "We don't mind as long as their estimates about the whole economy aren't based on that, because we think there's uncertainty," said one senior foreign oil company executive.



ASIA-PACIFIC NEWS DIGEST

Elections in Sri Lanka war zone

Sri Lanka yesterday announced local elections for the first time in 13 years in the embattled north, as the Tamil *separatists' leader rejected conditional peace talks*. The separatists are fighting a war for an independent homeland. Mr Velupillai Prabhakaran, the country's most feared Tamil guerrilla leader, asked his followers to continue their struggle in spite of intense military pressure against them in the island's north-east.

Mr Dayananda Dissanayake, elections commissioner, said nominations would open on December 11 to elect members to 27 local authorities in four districts where security forces are fighting Tamil rebels in a bid to restore civil administration. Voting must take place in January or February.

The Tamil Tigers have consistently opposed elections in the island's north-east, where they are fighting for an independent Tamil homeland. Yesterday Mr Prabhakaran ridiculed President Chandrika Kumaratunga's offer of talks to end the war. *Amal Jayasinghe, Colombo*

Bangladesh-India Ganges deal

Bangladesh and India are expected to sign an accord next month ending a dispute over sharing water from the river Ganges, a Bangladesh foreign office spokesman said yesterday. Prime Minister Sheikh Hasina will visit New Delhi next month, Mr Ahmed Tareq Karim said.

"Obviously the visit will take place for the signing of an agreement," he said after talks between Mr Abdus Samad Azad, Bangladesh's foreign minister, and the visiting chief minister of India's West Bengal state, Mr Jyoti Basu. Mr Basu arrived in Dhaka yesterday for talks on the issue. The Ganges, which flows into Bangladesh through West Bengal, has been an irritant between the two countries since 1974, when India built the Farakka barrage about 18km from Bangladesh's northern border.

Dhaka claims more than 40m people in north and north-west Bangladesh have faced gradual desertification of their land because the dam dries up rivers fed by the Ganges. *Reuter, Dhaka*

Australian budget holed

The first significant hole in Australia's conservative federal government's budget for 1996-97 emerged yesterday when the Senate voted down plans to delay certain social security benefits to new migrants by two years. The measures were set to raise around A$400m (US$325m) over the next four years. The government does not have a majority in the Senate and depends on support from minor parties and independents.

The government's first budget had gone fairly smoothly in parliament, with the appropriations bills, paving the way for public service cutbacks, passing unscathed. A number of other revenue-raising measures, including a proposed increase in higher education charges, have yet to be put to a Senate vote. *Nikki Tait, Sydney*

Megawati supporters released

An Indonesian court has ordered the release of all 124 supporters of the ousted opposition leader, Ms Megawati Sukarnoputri. In 10 separate verdicts, the judges acquitted nine of the accused and sentenced the other 115 to time already served in custody, allowing them to walk free. All were originally charged with provoking riots in July this year. *Manuela Saragosa, Jakarta*

India, China likely to cut border troops

By Mark Nicholson in New Delhi

India and China are expected to agree a series of "confidence-building" measures to cut troop numbers along their disputed border and improve cross-border military communications during the four-day visit to the subcontinent by President Jiang Zemin of China, which begins in Delhi today.

This and other expected accords are likely to do little more than improve the atmosphere between India and China, towards which Delhi has remained suspicious since the countries' border war in 1962.

Mr Jiang, the most senior Chinese leader to visit India, may agree new shipping and investment pacts aimed at raising bilateral trade between the two Asian neighbours from its present modest $1.2bn, Mr Salman Haider, Indian foreign secretary, said.

Mr Jiang, on a tour which will take him to Pakistan at the weekend, will be accompanied by Mr Wu Yi, minister for foreign trade, and Mr Qian Qichen, foreign minister, along with 50 businessmen.

His trip follows the visit of Mr P.V. Narasimha Rao, the then Indian prime minister, to China in 1993, but is being viewed by Indian officials as the most significant bilateral event since the 1988 visit to Beijing by the former prime minister, Mr Rajiv Gandhi.

The late Mr Gandhi's visit marked a clear shift towards improved relations between the two countries after India's heavy military defeat by China in the 1962 war.

Joint commissions of the two countries have met eight times to discuss the "line of actual control", as the 3,000km border is termed, most recently last August. But relations remain cautious.

"There has been little progress in relations, though somehow the atmosphere remains positive," Mr Salman Khurshid, former minister of state for external affairs, said.

He points out that only two remote border trading posts are open between the countries, while neither nation offers direct flights between respective capitals, a route which is served only by Ethiopian Airlines.

While India's ambiguous nuclear posture is perceived in the Indian public's mind as a response to Pakistan's similar stance, officials say privately that China is seen as a far greater strategic threat.

Indian officials cite Chinese military and nuclear co-operation with Pakistan, allege that China has posted nuclear-capable missiles in Tibet, and point to Beijing's military support for Burma, India's eastern neighbour.

"The fact is, the Chinese have increased their military presence around India," one official said. India had the perceived threat from China on its mind when refusing recently to sign the UN's comprehensive test ban treaty, he added.

China's ambassador to India this week denied China had any missile co-operation with Pakistan, or that there were any missiles in Tibet. But both issues are likely to be raised by Mr H.D. Deve Gowda, India's prime minister, and Mr I.K. Gujral, foreign minister, in talks with Mr Jiang.

Mr Jiang, in turn, is expected to raise the issue of India's support for the Dalai Lama, the Tibetan spiritual leader now living in northern India.

Disney risks Beijing's ire over Tibetan film

By Christopher Parkes in Los Angeles

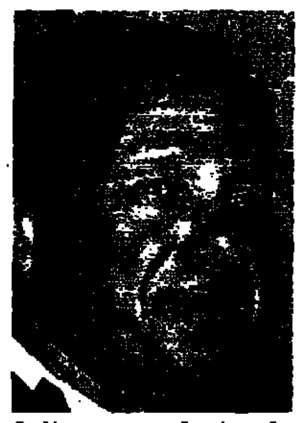
Walt Disney will distribute a film on the life of the Dalai Lama in spite of several warnings from Beijing that its links with the feature could imperil the entertainment group's expansion plans in China.

"We have an agreement to distribute the film domestically and intend to honour that agreement," the company said.

Disney, which had earlier repeatedly denied any connection with the work, Kundun, directed by Martin Scorsese, is now known to have participated in the financing of the film through its Touchstone Pictures subsidiary.

The entertainment group's statement, obtained late on Tuesday, came after a news blackout on the issue after the disclosure of Beijing's anger in the Financial Times on November 22.

Prospects for the film, coming close to completion in Morocco, seem cloudy. Implementing the group's US distribution contract will depend on finding cinema chains willing to risk Beijing's ire.



Ovitz: warned to be sensitive

According to other reports, UGC, the French company which has bought the international distribution rights, has been finding the work hard to sell, even though Mr Scorsese is renowned as one of the world's leading film-makers.

Disney's decision to resist Beijing's pressure followed two direct, private warnings to the company, and the threat of possible economic sanctions.

"Our attitude is that we resolutely oppose such a plan... as far as we know the film is going to be anti-China," an official at the ministry of radio, film and television told the FT in Beijing.

Beijing regards the Dalai Lama, the exiled spiritual leader of Tibet and a relentless campaigner for human rights in the Himalayan region, as a divisive influence seeking to remove Tibet from China's control.

"It [the film] is intended to glorify the Dalai Lama, so it is an interference in our internal affairs," a Beijing official told the New York Times.

No decision had yet been made on specific retaliatory measures, he added.

The events suggest Beijing may be ready to punish Disney as a warning to other international media and entertainment groups pressing for access to the Chinese market.

Mr Michael Ovitz, Disney president, was warned to be sensitive to Chinese culture when he met President Jiang Zemin last April.

The company's products, mainly toys and films, are already widely familiar and popular, and it has ambitions to open theme parks, co-produce films and set up animation facilities.

Tankan company survey points to a gradual lifting of the gloom

Japan's revival remains slow

By William Dawkins in Tokyo

Japan's economy has recovered from a summer slowdown, but the revival is stubbornly slow, according to an influential Bank of Japan business survey published yesterday.

The bank's quarterly Tankan review of about 10,000 quoted and unlisted companies, the most authoritative guide to Japan's short-term economic outlook, showed the balance of big manufacturing company managers who thought conditions were getting worse was 3 per cent.

That is better than the balance of 7 per cent gloomy in the August survey, but it brings confidence back to the level of six months ago, when a recovery began, only *to falter in the summer.*

The survey, used by the central bank as a guide to monetary policy, suggests the Bank of Japan will keep its official discount rate at 0.5 per cent, the lowest in any advanced economy in post-war years, Tokyo economists said. Rates were halved to that level in September last year, in a bid to pull the economy back from the brink of a slump.

In response to expectations of continued low interest rates, bond yields fell in Tokyo and the dollar rose above Y113 for the first time in three weeks, regaining a level at which the finance ministry had earlier warned the yen's decline had gone far enough. The Nikkei 225 share index fell a fraction, by 0.34 per cent to 21,345.28.

The survey found the balance of non-manufacturers who thought conditions poor had improved from 4 per cent in August to zero this month. Small manufacturing companies, especially sub-contractors, are still in trouble; a balance of 14 per cent of these were gloomy, a small improvement on 17 per cent in August.

All the main cyclical indicators improved slightly, with the balance of all respondents who reported excessive inventories of unsold goods and materials down from 16 to 14 per cent *over the same period.*

Those with surplus production capacity fell from 15 to 12 per cent; those with surplus labour dropped from 19 to 17 per cent.

The survey also contained *clear negatives in the shape* of lower-than-expected capital spending plans and evidence of a squeeze on profit margins. Large companies planning to increase investment on plant and equipment accounted for 7 per cent this year, up from 1.2 per cent last year but well below market expectations.

The big manufacturers *expect pre-tax profits to rise* by 14 per cent this year, after revising downwards profits forecasts for the second half of this year, a sharp fall from the 35.5 per cent profits rise they reported in the whole of 1995.

Small producers are forecasting faster earnings growth of 23.2 per cent for all of this year against 15.2 per cent in 1995.

Editorial Comment, Page 13; *Investors cool, Page 30*

Bosses ponder women's role

A landmark ruling could send shivers through corporate Japan, Gwen Robinson writes

Japanese corporate executives, overwhelmingly male, have barely begun to come to terms with the issue of *seku hara* – sexual harassment – following Mitsubishi Motors' well publicised ordeal at its Normal car plant in the US.

Now, they will also have to think more carefully before bypassing women for promotion, even at home, after a landmark ruling by a Tokyo court yesterday.

The Tokyo District Court ordered a company to pay 12 women a total of about Y100m ($890,000) compensation for wages which would have been paid had they been promoted with their male counterparts.

In a ruling that could send shivers through corporate Japan, the judge determined that all 12 women would have been promoted had they not suffered sexual discrimination, in violation of the labour standards law.

The judgment has highlighted glaring inequalities in employment and promotion procedures among Japanese companies, and could prompt a re-examination of personnel policies, particularly at branches abroad.

The Mitsubishi Motors case, in which hundreds of women at the company's Illinois car plant complained of sexual harassment, *has* already prompted leading Japanese companies to introduce handbooks and seminars on *seku hara*. But discrimination in employment practices has been a little publicised issue up to now.

Yesterday's judgment *ended a nine-year court battle*, widely watched by women's groups as well as corporate Japan, by 13 female employees of Shiba Shinkin Bank, a Tokyo credit association. It was also the first ruling of its kind in Japan to identify discrimination against women in the corporate promotion process.

> The case has underlined a gaping hole in the government's much vaunted Equal Employment Opportunity Law, and may encourage more women to sue

The women, who all have between 29 and 40 years' service with the company, filed a suit in 1987 charging that the company's promotion *procedures* discriminated against female employees.

They cited the company's policy of promotion according to duration of service, and an in-house exam for promotion which they claimed ran "counter to public order and morals" under *Japan's civic code, as it dis*criminated against women.

The court heard that no female employees of the company had ever passed the exam, although nearly every male employee who sat the exam passed it and gained promotion in line with his seniority at the firm.

The judge rejected the company's argument that no woman had ever passed the exam because they were incapable of doing so and said the firm had violated the labour standards law as the women were fully entitled to promotion to the post of section chief.

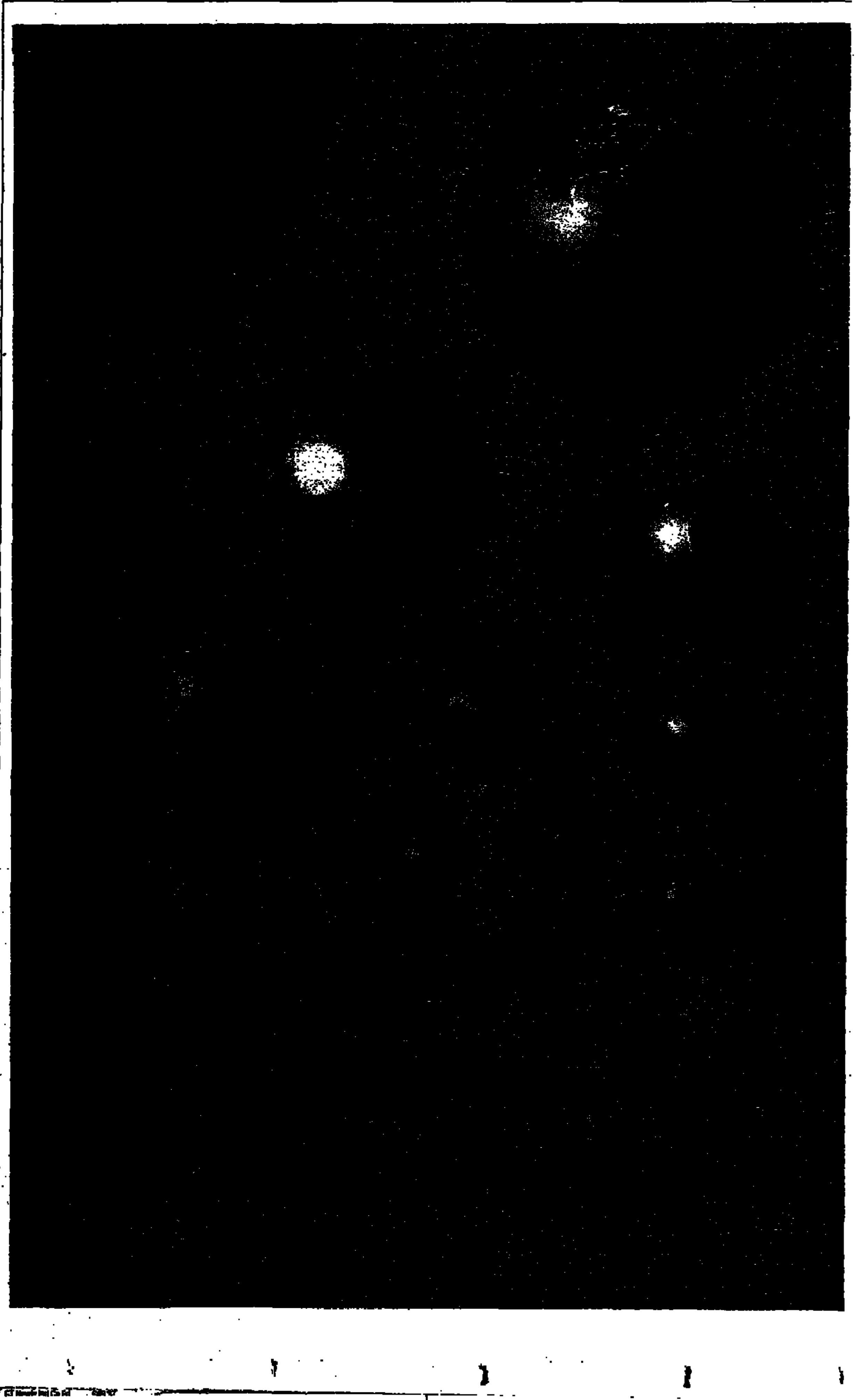
But one plaintiff's claim was rejected on the grounds that 80 per cent of male employees who joined the company in the same year as she joined had also not been promoted to section-chief level.

The case has underlined a gaping hole in the government's much vaunted Equal Employment Opportunity Law, and may encourage many more women to file suit against Japanese companies.

The law, often referred to by Japanese companies as evidence that women are given equal opportunity, has no provision banning sexual discrimination in employment. It merely urges employers to "make efforts" to ensure equality in recruitment and promotion between men and women.

An advisory panel to the Japanese labour ministry this week proposed that the law be overhauled, particularly to outlaw sexual discrimination in promotion and recruitment.

A labour ministry official was quoted as saying: "It will take a long time to co-ordinate views on this issue between labour and management".



Fund managers have breached own rules for using investors' assets, says bank's survey

Sterling exposure 'breaches guidelines'

By Simon Kuper in London

Global fund managers have increased their holdings of sterling well beyond their own guideline targets for currency exposure of investors' assets, according to a survey released yesterday by Merrill Lynch, the US investment bank.

Its quarterly global investor survey, which polled 104 institutions worldwide, showed that sterling's "overweight reading" this month reached its highest level since the poll began in 1989, mainly at the expense of the US dollar and the D-Mark. The reading indicates the extent to which fund managers breach their own guidelines on the ideal level of investment in any one currency. The reading jumped from 52 in August to 64 in November. A reading of 50 would indicate a net neutral position.

The trend suggests that the pound's recent surge may have peaked. Mr Joe Prendergast, currencies strategist at Merrill Lynch in London, said: "Sterling may well find further gains difficult from here. People may still perceive value in sterling, but they already hold the position."

Sterling has appreciated 10 per cent against a trade-weighted basket of currencies since early August, mainly because currency traders think UK interest rates will rise soon.

The survey also showed that fund managers' dollar exposure fell from 60 in August to 58 in November. D-Mark exposure dropped from 55 to an underweight 47 over the period.

Investors were overweight in Canadian dollars, where their exposure jumped from 49 to 60.

The pound gained initially in London trading yesterday, on a weak yen and comments from Mr Kenneth Clarke, the chief finance minister, that he was prepared to raise rates if necessary. But the currency fell back sharply later in the day, even though no further news emerged.

Few currency analysts predict a sharp downturn in sterling over the next three months or so. This is because they expect the UK to raise interest rates, thus attracting flows of money into sterling accounts, while other economies hold rates steady.

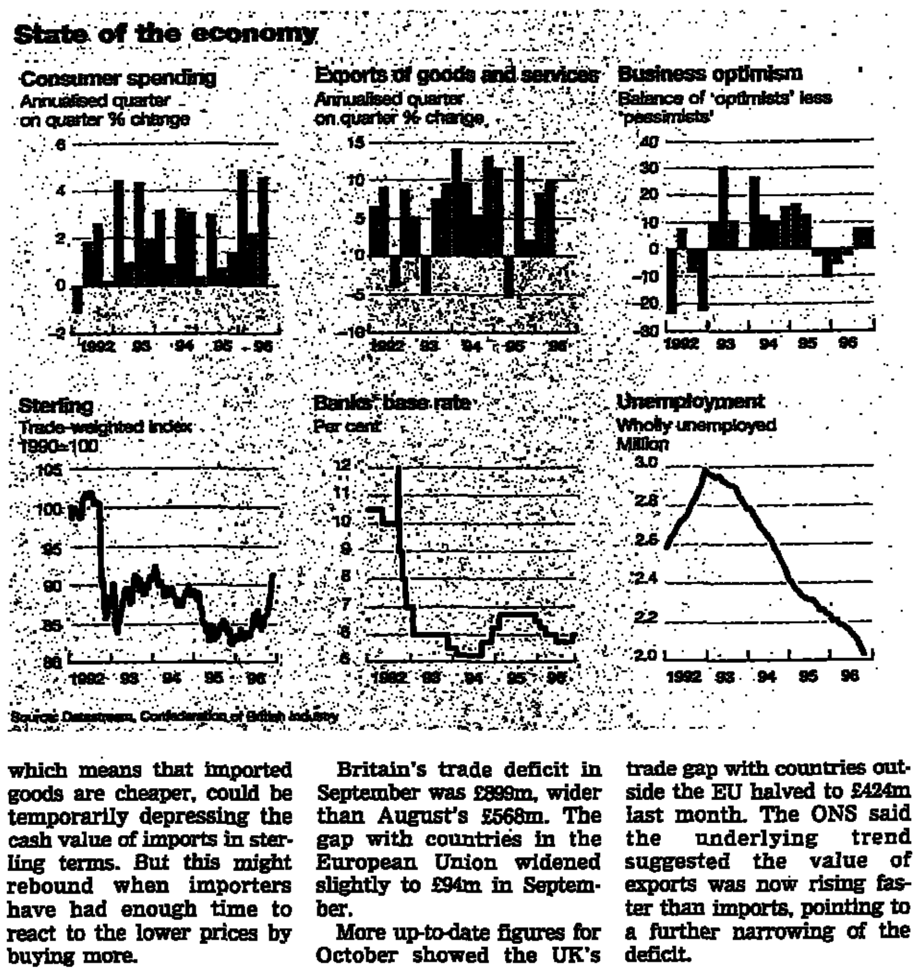
But Mr Paul Meggyesi, senior currency economist at Deutsche Morgan Grenfell in London, said that by the second half of next year sterling could weaken.

"It will be under pressure because everyone will have bought it, because other countries will have started to raise their interest rates, and because by then sterling's strength may have hit the UK trade balance," *he said.*

Currencies, Page 25

Export growth cuts trade gap in third quarter

By Graham Bowley, Economics Staff



Source: Datastream, Confederation of British Industry

The strongest growth in exports to the rest of Europe for a year cut Britain's trade gap in the third quarter to its lowest level since the beginning of 1995, official figures showed yesterday.

The unexpected trade performance calmed fears that the strength of the pound is damaging competitiveness overseas and eased concern that strong consumer spending growth might lead to a surge in imports.

The trade deficit totalled a seasonally adjusted £2.7bn ($4.5bn) in the third quarter, the Office for National Statistics said yesterday. This was £497m less than the deficit recorded in the second.

But excluding trade in oil and erratic items – such as ships and precious stones – the underlying deficit widened slightly to £4.3bn ($7.2bn) in the third quarter.

But the City of London welcomed the headline improvement as a sign that UK exporters are weathering the pound's appreciation. Sterling has risen by more than 10 per cent since August.

Mr John O'Sullivan, an economist at NatWest Markets, said: "Against a background of accelerating consumer spending and weakness in continental European economies, this is an impressive achievement."

But Mr Robert Barrie, an economist at BZW, the investment banking arm of the UK's Barclays Bank, said the export deals were likely to have been struck before sterling's recent appreciation, which meant the pound's rise could still bite.

In addition, sterling's rise, which means that imported goods are cheaper, could be temporarily depressing the cash value of imports in sterling terms. But this might rebound when importers have had enough time to react to the lower prices by buying more.

Britain's trade deficit in September was £899m, wider than August's £568m. The gap with countries in the European Union widened slightly to £94m in September.

More up-to-date figures for October showed the UK's trade gap with countries outside the EU halved to £424m last month. The ONS said the underlying trend suggested the value of exports was now rising faster than imports, pointing to a further narrowing of the deficit.

Spanish fishermen are urged to speak English

By Maggie Urry and George Parker in London

The UK government yesterday set out plans to reform the Common Fisheries Policy of the European Union and drive mainly Spanish "flag of convenience" fishing boats from British waters. The plans included a new requirement that crewmen on UK-registered boats should speak English.

Mr John Major, the prime minister, yesterday discussed the proposals with his Spanish counterpart, Mr José María Aznar, during 2½ hours of talks at 10 Downing Street.

Mr Aznar seemed amused that crews of *some 110* Spanish boats fishing against UK quotas should learn English to stay on the British register. "There are a lot of people in the world who speak English," he said. "I am sure Spanish fishermen could learn to speak English."

But Britain's proposals to end "quota hopping" go beyond the question of language. The UK has tabled a protocol to the Treaty of Rome to be considered at the European Union's Intergovernmental Conference (IGC), which aims to stop vessels with owners outside the UK taking up British quotas.

Britain wants to ensure the owner of a fishing boat is a company doing business in the UK. The skipper and crew should live in the UK and the vessel land the majority of its catches in British ports.

Asked whether Britain would block all progress at the IGC if the matter was not resolved, Mr Major said: "We have made it clear we will negotiate in a tough fashion on the issues we have put forward and we hope to have agreement."

Yesterday Mr Tony Baldry, UK fisheries minister, *said it was* "not unreasonable" that a UK vessel flying the UK red ensign flag should have someone on board who could speak English. He said it was a health and safety issue. Crews had to communicate ship-to-shore, for instance, with British coastguards.

He said he was asking the UK Department of Transport to bring in such a requirement under an EU directive on minimum levels of training for seafarers. His priority was to deal with "quota-hoppers" to "ensure that UK quotas provide an economic benefit to UK fishing communities rather to fishing interests in other member states".

The quota-hopping question arose when UK boat owners sold vessels mainly to Spanish and Dutch interests which now control about 20 per cent of the UK offshore fleet. They continue to be UK registered and have a right to catch fish *within the UK quota.*

Multinationals say they are unlikely to be affected by minister's Budget pledge

Big companies 'may face tax probes'

By Jim Kelly and William Lewis

Advisers to Britain's leading businesses were yesterday convinced that the government's crackdown in Tuesday's Budget on corporate tax avoidance – part of the Spend to Save initiative – could target many leading companies.

"Certainly most FTSE 100 companies have extensive international operations which may well be targeted by the tax authorities," said one leading tax adviser. "But it may well involve those outside the FTSE 100 as well – especially those which are subsidiaries of foreign-based companies."

Mr Kenneth Clarke, the UK chief finance minister, said in his Budget speech to the House of Commons that it was not acceptable that some big companies paid too little tax as the result of tax avoidance schemes. He said he would pump resources into curbing abuse.

Advisers from the City of London's leading legal and accountancy firms believe the crackdown will include scrutiny of complex cross-border tax issues – such as transfer pricing – which yield a high return. Leading companies will complain that their tax planning is perfectly legal and that they have a duty to shareholders to manage costs effectively.

Big UK-based multinational companies contacted yesterday said they did not expect the initiative to have an big effect on them.

"We will not be changing the way that we work," BAT, the UK tobacco and financial services group, said. "We have nothing to hide and don't expect to pay any more tax." Barclays Bank said: "We do not feel that this will affect us".

One Inland Revenue tax inspector said his colleagues were also "very sceptical" about the forecast yields. But the Treasury indicated that it had confidence in the forecast yields from tax compliance. Sources said that previous Budgets had contained ringfenced resources for compliance and the resulting yields had been carefully monitored.

It is understood that several compliance schemes were rejected in the run-up to the Budget because the cost-to-yield ratios were likely to be low due to diminishing returns. The Treasury, however, is confident the announced package will prove efficient.

It also points to published annual cost-to-yield ratios in the Revenue's departmental accounts which it believes show that the forecast yields are achievable.

The Revenue's main problem with stopping complex avoidance schemes is that the tax authorities learn too late that they are in operation. It then takes time to bring in laws to block them.

Samuel Brittan, Page 12
Editorial Comment, Page 13

Rolls-Royce jet engineers win innovation award

By Peter Marsh in London

Five Rolls-Royce engineers are today being awarded one of the most prestigious prizes in UK technology for their part in designing an innovative engine for jet airliners that has brought in £3.5bn ($5.8bn) in orders.

The five will share a cheque for £50,000 in the annual MacRobert award organised by the Royal Academy of Engineering to mark outstanding achievements in technical innovation linked to commercial success.

The Trent engines produced by the £700m eight-year development programme have become Rolls-Royce's principal competitive weapon in the company's battle with General Electric and Pratt & Whitney, the two US companies which, with Rolls-Royce, are the leaders in the global aeroengine industry.

Sir Ralph Robins, the company's chairman, said the Trent programme had been "one of the largest mechanical engineering programmes ever undertaken in Europe". So far the engines, which flew for the first time in 1994, have been fitted to 25 aircraft, either Airbus A330s or Boeing 777s. Orders under negotiation should increase this figure to between 200 and 300 by the end of the century, helped by a new Trent variant capable of powering the new "super jumbos" being planned by Airbus and Boeing.

Rolls-Royce believes that over the next decade the engines will account for at least one-third of the available market for big aircraft engines.

Mr John Cundy, a former chief engineer on the Trent project, and one of the five winners, said: "The programme was a good example of giving empowerment to engineers. We divided the [development] work into separate packages, gave people specific design targets and let them get on with it."

One of the design achievements was an innovative, hollow fan blade for the air intake. The honeycomb internal structure of the blade has been replaced by a series of tiny struts made from titanium which hold apart the outer edges of the blade, cutting weight and fuel consumption. Another benefit from the new blades – made in a process derived from aircraft-door manufacturing that involves the use of novel "diffusion bonding" to hold the different pieces of metal together – is that fewer production steps are required, making them 20 per cent cheaper than the "honeycombe" blades.

Allocation of EU cash to change

By Caroline Southey in Brussels

The UK has been given Ecu1.7bn ($2.1bn) by the European Commission to fight joblessness, particularly among young people and the long-term unemployed.

Britain has agreed for the first time to distribute the money through regional authorities rather than centrally.

Mr Padraig Flynn, European commissioner for social policy, said the new approach would lead to a "more effective response to regionally-defined needs".

The money will be drawn from the EU's social fund, which makes up 30 per cent of the five-year structural fund worth Ecu170bn ($214.2bn). Britain will provide matching funds of between 45 per cent and 50 per cent. The funds cover 1997-99 and come on top of Ecu1.5bn awarded to the UK in 1994. The full sum was agreed in 1994.

Almost half of the money – Ecu783m ($986m) – will be spent on giving career guidance, basic skills training, work experience and ultimately a job to unemployed 16 to 24-year olds. More than Ecu640m ($806m) will go to people aged over-25 who have been out of work for at least six months, as well as those who have been out of work for at least two years.

The UK is also planning a programme for workers with jobs which will allow it to claim a further Ecu244m ($307m). This money has been set aside for employed workers who might be threatened with unemployment. The UK had previously insisted on using all the money on the unemployed when the fund was first negotiated in 1994.

UK NEWS DIGEST

5,000 troops for Bosnia mission

The UK confirmed yesterday it would contribute 5,000 troops, with tanks, artillery and air support, to the 30,000-strong "stabilisation force" which Nato intends to deploy in Bosnia next year. The announcement came as Nato ambassadors in Brussels agreed to plan for an 18-month stay by the forthcoming mission, a follow-up to the 52,000-strong Peace Implementation Force whose mandate expires next month.

The ambassadors also decided that the new force, which will also include about 8,500 Americans, 5,000 French and 3,000 Germans, would have a brief to deter war and police next year's municipal elections. But as the number of foreign troops was being reduced, Nato would have to be more selective about the aid it provided to civilian reconstruction, they agreed.

European Nato members were initially surprised when the US – whose willingness to keep any troops on the ground was in doubt until the last moment – proposed a mission of 18 months, six months longer than most expected. The UK contribution will include an armoured battle group, complete with Challenger tanks and Scimitar reconnaissance squadrons, plus an artillery regiment with 12 howitzers.

Mr Michael Portillo, the UK defence secretary, said the offer was subject to Nato producing a satisfactory plan and other alliance members contributing their share. But the latest signs are that Nato commanders will be offered more troops than they need, both by members and non-members of the alliance. *Bruce Clark*

■ IMPORT DUTIES

40 arrested after morning raids

Allegedly the biggest excise duty fraud in drinks and cigarettes was uncovered early yesterday morning when 500 Customs & Excise officers raided 100 premises in the UK. Some 20 container-loads of spirits, wines, beer and cigarettes were seized, representing a loss to the government of about £65m ($108m) in excise duties and value added tax. About 40 people were arrested and up to £500,000 ($835,000) in cash found.

"This was a serious, concerted criminal attack on the fabric of the revenue system," the national investigation service of Customs & Excise said. The raids came hours after Mr Kenneth Clarke, the chief finance minister, promised in the UK Budget to appoint more officers to tackle rising levels of duty fraud.

Commercial-scale excise duty fraud began after the creation of the European single market in January 1992. Goods are no longer inspected as they leave bonded warehouses or pass through ports on their way abroad. Drinks industry executives say this allows people to set up their own bonded warehouses and buy goods duty-free from distillers, brewers and cigarette makers.

They then doctor the paperwork to show the goods were sent abroad but in fact the goods are sold through the UK wholesale and retail systems. *Roderick Oram*

■ ACCOUNTING

More data urged for interims

Companies would have to disclose more information in their interim reports – and more quickly – under draft guidelines published yesterday by the Accounting Standards Board. The reforms are likely to prove controversial as they also advocate an accounting framework which would stop companies "smoothing" their results over a year. Sir David Tweedie, the chairman of the board, said the quality of interim reports had improved in recent years but a non-mandatory code was needed to set best practice.

Further reforms may lead to preliminary results being improved by the inclusion of detailed notes – leaving the annual accounts as a document of record. The draft guidelines suggest interims should include a summary profit and loss account, balance sheet, cashflow statement and management commentary. *Jim Kelly*

■ TOURISM

MPs urge more effort in US

More state cash should be targeted at the US and promising markets in Europe and the Far East, the House of Commons heritage committee said yesterday in a highly critical report on UK efforts to attract tourists from other countries.

"We believe it absurd that the British Tourist Authority's [the body charged with attracting visitors] activities for the whole of the Americas be covered from New York, and recommend a separate organisational structure for *Central and South America*," the MPs said. They called for an extra £100m ($167m) to be spent over the next five years.

Aspects of the government's tourism strategy were variously described as as "absurd" and "ludicrous and unacceptable" – strong words from a committee with a majority of members from the governing Conservative party. The strongest criticism was reserved for the government's funding of the British Tourist Authority. On Tuesday Mrs Virginia Bottomley, chief heritage minister, announced a £500,000 cut in the BTA's £35.5m budget for next year. MPs on the committee said they believed that spend should be increased by £20m a year. *George Parker*

■ EDUCATION FOR INDUSTRY

Teaching standards attacked

School courses designed to boost understanding of the world of work are suffering from low attainment and poor teaching, says the government's Office for Standards in Education. In a report into vocational GCSE examinations – which attract around 300,000 entries each year – the government's watchdog, together with a panel of employers nominated by the Confederation of British Industry, the main employers' lobby, found that standards achieved in so-called "industry-specific" courses "vary widely". GCSEs are taken by pupils aged 16 and 17.

In commerce, building construction, office practice and engineering, the Ofsted inspectors noted that "although some work is sound there is much that is undistinguished". Many pupils lacked any reasonable understand*ing of the working practices of industry.* *Simon Targett*

European Commission suspects something fishy in Norway

Salmon producers, already facing a Brussels probe, may soon have to contend with a minimum import price requested by London

It is "counter-productive to have production that is larger than the market potential", Mr Tarald Sivertsen, chairman of the Norwegian Fish Farmers Association, said last week.

Mr Sivertsen should know: Norwegian salmon producers are once again in trouble with the European Commission for producing too many fish and driving down prices on the European Union market.

The Commission is expected soon to impose a minimum import price for salmon – a measure aimed at Norway and formally requested by the UK government amid concern about the effect of low prices on salmon farmers in Scotland. Scottish farmers would like the import price set at 20 per cent above the present price of £2.40 ($4) per kg, an all-time low.

The Commission is already investigating allegations that the Norwegian industry dumped fish – sold at below production cost – on the EU market between August 1995 and July 1996, and that it enjoyed government subsidies that were against EU rules on state aid in the late 1980s and early 1990s. Norway is part of the European Economic Area and EU internal market legislation applies to it.

Norway has been the dominant European producer of farmed Atlantic salmon since it pioneered the industry in the 1980s: this year it expects to produce about 295,000 tonnes against Scotland's 80,000 tonnes.

But the story of the Norwegian salmon industry has been one of strong increases in production followed by collapsing prices and almost permanent rancour between Norway and other salmon producing countries.

In 1991 the US imposed a 26 per cent tariff on salmon imports from Norway, following claims of dumping. The EU has complained about dumping by Norway three times and imposed minimum import prices on each occasion.

The latest crisis comes when Norway has arguably been making greater efforts to hold back production. A year ago its salmon farmers adopted a compulsory ban on feeding fish above a certain size and last March quotas were imposed on the amount of food each farm could give its fish.

The Norwegians say these measures should prevent a theoretical 145,000 tonnes of salmon coming to market this year over and above the expected production of 295,000 tonnes. But production may still be nearly 20 per cent more than last year and prices have fallen 16 per cent in the last five months.

So why did Norway's 700-odd salmon farmers plan such big increases in output, far in excess of what the EU market was likely to absorb?

Mr Jostein Refsnes, *president of the* National Federation of Fish and Aquaculture Industries, told a seminar in Brussels last week that they were carried away by enthusiasm as technological improvements reduced costs and drastically cut losses from disease.

Mr Einar Bull, Norway's ambassador to the EU, said farmers saw each other as competitors without considering the market as a whole. The Norwegian government now wants the farmers to set up producer organisations to control output.

But such promises cut little ice with the Commission or with salmon farmers in Scotland and Ireland. "The Norwegians have lost credibility because a lot of their past predictions were not fulfilled," says Mr William Crowe of the Scottish Salmon Growers Association.

In 1994 a study by the accountants Ernst & Young concluded that during the previous five years the Norwegian industry received the equivalent of a 20 per cent government subsidy.

Norway denies it still gives illegal *subsidies* to its industry, but the investigators can argue that past subsidies created the capacity that is still supplying the market. The outcome of the EU investigations will not be known until May.

James Buxton

TECHNOLOGY

European Federation of Asthma and Allergy Associations

A mite unfair: it is now thought that sufferers' genes may share some of the blame for asthma with the dust mite

Daniel Green looks at how attention has been turned to families in the hunt for a cure for asthma

New wheeze for gene-hunters

In 1910 a missionary on the remote south Atlantic island of Tristan da Cunha witnessed the death of a 12-year-old girl from asthma and noted many other cases of the disease. Fifty one years later the island's interbred people – all 300 inhabitants are cousins – were evacuated to the UK after a volcanic eruption. Medical checks showed, among other things, that 29 per cent of them wheezed and half had a history of asthma.

These extraordinary figures, at least three times the asthma rates in normal populations, triggered a series of medical expeditions to the island that have identified strong family links between the asthmatics there.

This kind of evidence may help explain why gene-hunters are turning their attention to asthma even though popular debate on the disease focuses on atmospheric pollution, the droppings of dust mites, central heating and whether children are too mollycoddled these days.

The debate is driven in part by the complexity of asthma. Few simple facts have been established – other than that there is a lot more asthma than 30 years ago. Asthma seems to be worse in richer countries than in poorer countries and in cities than rural areas. However, it is not always clear whether this represents more sufferers or more frequent asthma attacks. Pollution may be a factor, but a German study showed more asthma in squeaky-clean Munich than in the dirtier east German city of Leipzig – where bronchitis is a greater problem than in Munich.

The damp warmth of northern European houses in winter seems to encourage asthma, perhaps by allowing insects and mould to thrive, which in turn lead to higher levels of dust in the air.

Fears that dust causes asthma have created a lucrative business in the US in mite powders and mite-proof covers for mattresses and pillows.

The dust theory is bolstered by evidence that pets or passive smoking may trigger the condition. But it is undermined by those who swear that cutting dairy produce from their diets cures their asthma, and by studies that show that some Tristan da Cunha inhabitants are allergic to cats – even though there are no cats on the island.

The route through this mess to effective treatments starts with the knowledge that there are symptomatic links between allergy and asthma. Most medicines that are given for one also offer relief for the other.

There are two main classes of treatment. Short-acting bronchodilators, which widen passageways in the lungs, and longer-acting inhaled steroids, which reduce inflammation. The biggest-selling bronchodilator is Glaxo Wellcome's Ventolin. Top-selling steroids include Glaxo Wellcome's Becotide, and Pulmicort, made by Sweden's Astra.

But alleviating symptoms is not enough. Asthma mortality rates have stayed roughly constant since 1960 and hospital admission have risen, according to the World Health Organisation and the US National Heart, Lung and Blood Institute.

The goal of genetic research in asthma, therefore, is to try to identify a simpler cause, one that might offer a more promising route to new treatments than the many possible environmental possibilities.

"We believe that asthma is the result of both genetic and environmental factors", says Ulf Haksell, president of Astra Draco, the company's respiratory medicines division. "Around 60 per cent is genetics and the rest environmental."

'We believe asthma is the result of both genetic and environmental factors'

The methods that companies such as Astra are using are "functional genomics" and "linkage analysis". They differ from the work of gene sequencing companies which are trying to identify every component of the human genome.

The idea is to start with families, such as the inhabitants of Tristan da Cunha. By genetic analysis of blood samples from relatives with asthma, the scientists hope to pinpoint visible features on the chromosomes that asthma sufferers have in common. By continually refining the comparisons, they hope to move from microscopic feature to molecular biology and find the genes themselves.

Astra has an alliance with Millennium, a Massachusetts biotechnology company, with which it is collecting "several thousand families" to analyse. The same method is being pursued by Germany's Boehringer Ingelheim through a partnership with California's Sequana.

Unfortunately, the work is progressing slowly, partly because the genetics of asthma seems to be almost as complicated as its external causes.

Unlike cystic fibrosis and other diseases, there is no single gene for asthma. There seem to be many genes and perhaps many groups of genes involved.

"A number of international research groups have discovered loci [regions] on chromosomes that are associated with asthma," says Jonathan Knowles, research director of Glaxo Wellcome Europe. "They have not yet discovered the genes, but they seem to be getting there."

There will still be a long way to go once the genes are identified. Because there are many genes involved, it will be difficult to devise a single simple treatment to "correct" them.

Instead, research will then focus on what the genes do and what happens next. Each gene triggers the production of a protein in the body. Each protein is the first step in a series of chemical reactions that are the workings of the human body.

"We hope that in asthma we will fine that the genes are interconnected through what happens downstream [ie that the chemical reaction sequences overlap], says Astra. "There might even be an intersection."

If his hopes are realised, the intersection could be the weak point of the disease. Asthma may be cured by designing a drug to act on the intersection.

That possibility is remote enough for Knowles to express some doubt about genetics as a route to new asthma treatments. "The genetics of asthma is important for the future, but perhaps not as important as some other things," he says. "We have a number of different mechanistic processes, such as in inflammation, to follow up."

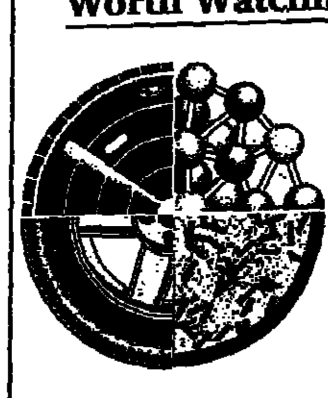
Glaxo has not signed gene-hunting partnerships with companies such as Millennium and Sequana, and perhaps has a vested interest in playing down the possibilities opening up to its competitors.

But Knowles says: "The issue is the degree of unmet medical need. It's not worth spending a lot of money if there are more serious conditions around." Asthma is a dangerous, he concedes, but the cause may be partly because patients do not take today's drugs properly.

Such are the obstacles facing asthma gene hunters that Knowles is unlikely to be proved wrong for several years, if ever.

The series on human genes continues next month with a look at depression

Worth Watching · Andrew Baxter



Petrol refining feels the burn

Catalysts based on uranium oxide could transform the way in which the toxic emissions from petrol refining are destroyed, *writes Carol Jones.*

Polychlorobiphenyls (PCBs) and other chlorine-containing hydrocarbons are currently incinerated at 1,000°C, costing European companies close to \$600m a year. Although very efficient, this process can lead to highly toxic by-products such as dioxins.

In Nature magazine today, scientists from Liverpool University and BNFL group research laboratories, describe a new process which involves passing polluting gases through a uranium oxide catalyst bed at much lower temperatures, around 350°C.

This form of catalytic combustion is just as efficient as high-temperature incineration but is much more cost-effective. It also does not result in any harmful by-products.

Unlike previously tested precious metal based catalysts, uranium oxide does not seem to lose its activity with time – an essential requirement for a commercial catalyst.

Depleted uranium oxide and uranium hexafluoride, which can easily be converted to the oxide, are by-products of the uranium enrichment process. Until now they have had little commercial value and are considered by many as an environmental burden – approximately 30,000 tons are stored at BNFL sites in the UK alone. Using uranium oxide as a catalyst may solve the problem.

Ian Hudson, BNFL: tel UK (0)1772 763929, fax (0)1772 762470; Tim Bullough, Department of Materials Science and Engineering, Liverpool University, tel UK (0)151 7945399, fax (0)151 7944675 e-mail: timbull@liv.ac.uk

Cool line in superconductors

Another milestone has been passed in the development of industrial applications for superconductors, which transmit electricity with no resistance when cooled below a certain temperature.

Asea Brown Boveri has announced the successful installation, in a Swiss hydro-electric power plant, of the world's first commercially operational high-temperature superconducting device for electrical utilities. High-temperature superconductors do not have to be cooled to such low temperatures as earlier devices to be effective.

ABB's "fault current limiter" is designed to protect power system equipment and personnel from the effects of short circuits. When a short circuit occurs, the electrical current in the system immediately rises above the level at which the superconductor can function. The limiter's resistance then instantly increases, blocking the current surge.

Michael Robertson at ABB, tel Switzerland 1 317 7304, fax 1 312 1543.

Keeping phones operational

Communications are critical to the operations and safety of public transport and power station operators, and telephone faults need to be rectified rapidly.

To address such users' needs, Racal has launched its Intelligent Self Reporting Telephone system – a PC-based network which reports the operational status of telephones in real time and identifies, locates and analyses faults.

The system's management station can process more than 2,000 reports a day, providing a database of performance and traffic information, and reporting faults locally and by fax to remote maintenance staff.

Racal Acoustics, tel UK (0)181 427 7727, fax (0)181 427 0350.

THE LONG KISS GOODNIGHT
Renny Harlin

BEAUTIFUL GIRLS
Ted Demme

I SHOT ANDY WARHOL
Mary Harron

THE VAN
Stephen Frears

A MIDSUMMER NIGHT'S DREAM
Adrian Noble

LE BONHEUR EST DANS LE PRE
Etienne Chatiliez

Surpassing the Perils of Pauline: Geena Davis in 'The Long Kiss Goodnight'

Cinema/**Nigel Andrews**

All-action heroine

Noel Coward once cooed about the potency of cheap music. But can even that compare with the potency of cheap cinema? By cheap, in these action-obsessed 1990s, we do not mean "cheap". *The Long Kiss Goodnight* must have cost a million dollars per scenery-shaking set piece, of which there are many, and we shudder at the likely bill for wrecked cars and bandaged stuntpersons.

All is well that unspools well, though, and it is hard not to enjoy this film's hard-driving, one-damn-thing-after-another insolence. The husband/wife duo of director Renny Harlin and star Geena Davis, rebounding from *Cutthroat Island*, have learned the value of judicious flamboyance. Almost as much money has been spent on the script as on the stunts: four million dollars to writer Shane Black, beating even his previous experiments in daylight robbery (*The Last Boy Scout, Last Action Hero*).

A preposterous premise – demure housewife Davis falls victim to sudden recall seizures suggesting she was once a hired killer – is capped by an outrageous development. Escorted across America by a low-life private detective (smokily underplayed by *Pulp Fiction*'s Samuel L. Jackson), she investigates such past acquaintances as Brian Cox (dodgy CIA man), Craig Bierko (ditto) and David Morse (sociopath for hire).

During an average day she is thrown about, blown up, half-drowned and subjected to menaces while in a state of scanty clothing. Even Pauline, of "Perils" fame, never stayed in such constant jeopardy: we assume that man-eating alligators were left out only because Herr Schwarzenegger got to that franchise first in *Eraser*.

Eraser, though, like many post-modern thrillers, was silliness without logic or momentum. *The Long Kiss Goodnight* is as neat as a game of dominoes. Each piece of unreason has its reason; each red herring is allowed to swim its distance. At one point Davis, astonished at her new-found onion-chopping skill, assumes that the past life trying to reassert itself was as a chef. When she later throws a knife within finely-judged inches of a friend, she pipes out self-mitigatingly, "Chefs do that".

The movie is a hodge-podge of promiscuous influences, from *Marnie* to *Nikita* to *The Big Sleep*. But right from our heroine's sonorous opening voice-over – "Focal retrograde amnesia, it's no picnic" – we feel we are in the hands of film-makers who know when a joke is a joke and when to get serious as the need comes.

★

Beautiful Girls is all about bemused men. This blithe comedy of small-town manners is directed by Ted Demme, nephew of Jonathan (*Silence Of The Lambs*), and scripted by Scott Rosenberg, of the mordant murder romp *Things To Do In Denver When You're Dead*. As five male twentysomethings re-bond for a high school reunion in a snowy New England town, a fire-at-will essay in social observation sharpens into a satire on sex, sexism and the premature menopause that attacks overgrown school-leavers feeling the pressure to "settle down."

The dialogue is crunchy, the plotful of spiralling accidents (from jealousy fights to ill-fated romances) is beautifully worked out, and the cast is good enough to eat, whatever your tastes. Matt Dillon, Timothy Hutton and the funny, hyperanxious Michael Rappoport lead the men. Uma Thurman (dreamy demigoddess), Mira Sorvino (earthy beauty) and Rosie O'Donnell (acidic party-pooper) lead the women.

What could have been a soap opera with star names ambushes us with subtlety and surprise: from the plump ex-schoolmate who sidles flatteringly up to O'Donnell before delivering the Parthian valediction "You were as mean as a snake" to the poignantly unresolved attraction between revisiting ivy-leaguer Hutton and the beautiful, spiky-humoured 13-year-old girl who now lives next door. Every character lives; every scene breathes; and like all good small films *Beautiful Girls* grows large in the memory.

★

I Shot Andy Warhol shrinks and is still shrinking. One longs to redistribute this film's dialogue and dramatic emphases. There is too much of Lili Taylor as Valerie Solanas, the Factory groupie who harangued everyone with her feminist ideals before putting a bullet into the century's most beloved pop artist. And there is too little of Warhol himself, played with fey virtuosity by Jared Harris.

The ash-blond wig, the permanent mask of fragile surprise, the bobbing, tight-hipped walk: all are perfect. So is Stephen Dorff as Candy Darling, the Warholian actress-transvestite who took her body-swap deadly seriously. How often does she get a period?, Andy asks her. "Every day," coos Dorff. "I'm such a woman."

BBC Arena co-produced the film, which may account for its passages of grim seriousness. A lighter touch in addressing Valerie's fanaticism – as well as writing a play called *Up Your Ass*, she founded SCUM, the Society For Cutting Up Men – might have saved Taylor's performance. So would heavy re-editing. With less of her and more of Andy we could have celebrated, not merely mourned in passing, a great icon-maker whose greatest icon was himself.

★

Stephen Frears's *The Van*, brought to us from the director of *The Snapper* and the producer of *The Commitments* (Lynda Myles), is a Roddy Doyle comedy too far. We have already had some 200 minutes of uproarious Irish realism on screen, delivered by actors competing for a golden mugging award. We know from scene one here that we do not want any more: at least as directed by Frears and performed by Colm Meaney and Donal O'Kelly as two best mates who start a mobile hamburger and fish-and-chip shop.

That everything goes wrong we could have expected. (Otherwise no comedy). That everything goes wrong without wit, pith or moment is less easily passed off. Blood on the chips, nappies in the cod tray, World Cup fever distracting the punters. So much wasted effort and perspiration for so little reward, and we are not talking merely about the burger van.

★

Adrian Noble's *A Midsummer Night's Dream*, another spasm of Bardolatry in a busy year, is better than *Twelfth Night* but worse than *Richard III*. For 20 minutes we are almost enchanted. A magical house tucked in a cloudscape; a boy tumbling into a dreamworld; a cast dressed in workaday civvies with subtle, apotheosising splashes of colour.

I kept being reminded of the Pountney-ENO *Hansel And Gretel*: which is like being reminded of an evening in Paradise. Soon, though, it starts to go wrong. The love plot is confusing – perhaps we need the wide-angle geometry of a proscenium stage to "get" the configurational misunderstandings. The mechanicals are mechanical. And Lindsay Duncan and Alex Jennings, as Titania/Hippolyta and Oberon/Theseus, come on like the King and Queen of Kitsch, ministered to by a bare-torso'd Puck who might be moonlighting for the Chippendales.

What to say of Etienne Chatiliez' *Le Bonheur Est Dans La Pré*? It is French, it lasts 105 minutes and it is meant to be funny. But Michel (*Cage Aux Folles*) Serrault leads the cast, like an unhappy pied piper, through the tale of bigamous wish-fulfilment involving mistaken identity, foie gras and a supporting actor called (yes, it is he) Eric Cantona.

Huddersfield Music Festival/**David Murray**

Women of the future

Last weekend, while Karlheinz Stockhausen's troupe dazzled and bemused audiences at the Huddersfield Contemporary Music Festival, two other composers got closely sympathetic attention – both women, and both notably prolific at fairly advanced ages: Sofia Gubaidulina and Betsy Jolas. The Russian Gubaidulina has been winning a great international reputation over the last 15 or 20 years; Jolas, five years older, is still best known in her native France, but specialist musicians and audiences elsewhere have admired her work since the early 1960s.

Several quite different enthusiasms mark Gubaidulina's music, often simultaneously. A reverence for mystical Christianity in the Eastern Orthodox style (not the rites, like John Tavener, but the anguished symbols); a pure love of experiment with new sounds and ancient native ones; a delight in ingenious construction, often mathematical; and as a onetime film-composer she revels also in sheer *Affekt*, direct emotional impact.

Huddersfield managed to display Gubaidulina's variety and depth to advantage. The largest work was her 1993 cantata *Now Always Snow*, on visionary poems by the Chuvash modernist Gennadi Aigi. Markus Stenz and the London Sinfonietta had performed it to great effect on the South Bank a week before, with the small choir compounded of fine solo voices (uncanny snow-swirls by overlapping sopranos, soaring up and down), and they repeated it here.

In London it went with Gubaidulina's stark, schematic *Seven Words* – i.e. the "seven last words" of Christ, His soul represented by solo violin and His body by dense, impacted sounds from an accordion. Visceral impact, first time round, though after a second hearing one might think a third one redundant. In Huddersfield the Sinfonietta followed *Now Always Snow* with Morton Feldman's *For Samuel Beckett*, nearly an hour's worth of gently poignant chords in slow alternation.

The Firebird String Trio were vividly convincing in Gubaidulina's 1988 trio, which dramatises the partners' distinct personalities. The double-bass virtuoso Alexander Suslin tackled six of her "preludes" for cello – 15 pawky, laconic *études* in different bow-attacks – with astonishing fluency. I regretted missing her new *Galgenlieder* cycle, wry "gallows-songs" after Christian Morgenstern; before them, two colourful but musically vapid pieces by her percussionist Marta Ptaszynska took so long that the *Galgenlieder* began well after the concert should have ended, and I had to leave.

In Lyon last year I was entranced by Betsy Jolas's music for her opera *Schliemann*. Huddersfield let us hear much more of her range. The 1964 *Quatuor II* that sealed her reputation in France, with the first violin replaced by a wordless soprano as *prima inter pares*, sounded seamless and utterly seductive in the Firebird performance with Elizabeth Parcells, a singer of luminous intelligence and subtlety.

We heard much more besides, all of it at a slight angle to what anybody else is composing now: *O Wall*, a "puppet opera" for quintet after Shakespeare's *Dream*; some short but seriously expressive duos for tuba and piano; a *Quatuor IV* that squeezed five characterful movements into two-and-a-half minutes. Best of all was Jolas's *Quatuor V*, nine quartet-movements that fill almost a half-hour with acute feeling and pregnant brevity.

I do not believe that there are distinct categories of "masculine" and "feminine" music in general; but somehow Jolas's music is unmistakably feminine, with its penchant for decorative arabesques and free individual lines, and an extreme disdain for overriding climaxes. The Music of the (immediate) Future may become more and more like that.

The Huddersfield Festival continues until December 1, with Feldman featuring large at the weekend.

Theatre

Court life on the surface

One of the most telling scenes in Jane Austen's *Mansfield Park* occurs when Fanny has been reading to her Aunt Bertram. Her suitor, Henry Crawford, enters, takes the volume from her, sees that it is Shakespeare, expresses his delight, and begins to read scenes from *Henry VIII*, a play he does not know. Fanny, determined to show him no kind of admiration, busies herself with needlework. Soon, however, she finds herself attending to nothing but his reading, such is his natural actorly skill in bringing the characters to life.

Most of us are like Henry Crawford in one respect: namely, that we do not know *Henry VIII*. The new Royal Shakespeare Company staging at Stratford-upon-Avon is the first that I have seen. It plays well, with a single unrolling plot that carries a number of important historical characters along, some of them – the Duke of Buckingham, Queen Katherine (of Aragon), and Cardinal Wolsey – to their respective ends; and it has a number of strikingly effective scenes.

And yet it feels to me less Shakespearian than any other Shakespeare play. We almost always know very simply what we should think about each character. And, although we react differently about some of them when Shakespeare shows them falling from glory, none of them seize us with those conflicting feelings that, in other Shakespearian plays, even minor characters make us have. It is a handsome, well-paced, but, by Shakespeare's standards, remarkably simple-minded play. King Henry himself, imposing and often amiable, is always shown from outside, and the drama is all about the peril of the inner politics of the court about him. The great speeches for Queen Katherine and Cardinal Wolsey are immensely stirring, but they are more obviously set pieces than most Shakespeare speeches. We seldom if ever see their inner selves.

Gregory Doran, directing, makes a handsome case for the play. Ungratefully, however, I wish he had made a better one. The play's subtitle, "All Is True", is emblazoned on Robert Jones's set, but we might as well be watching historical fiction. Truth, in the human sense Shakespeare has made us feel so often, is not really important here. Almost all the acting is eloquent, sensitive, accomplished, intelligent; but, even in the wonderfully intimate auditorium of the Swan Theatre, we remain aloof from it.

Jane Lapotaire applies to Queen Katherine her customary and canny sophistication of elaborate gesture and rhetoric. Impossible not to be interested, but impossible to believe. And a pity that the laboriously cultivated Spanish accent she employs kept reminding me of Manolito in *High Chaparral*. Ian Hogg, by contrast, gives Cardinal Wolsey the plebeian Suffolk accent of his upbringing. (The RSC should know from its own history that Suffolk boys who rise to administrative eminence tend to lose their Suffolk accents.) Again, good pacing, real force. But, as with Lapotaire, we are shown only surface. Paul Jesson does slightly better with the less rewarding role of the King; he is commanding, with gruff charm.

Jason Carr has composed good fanfares here and there. I wish his Latin anthems were less like the *War Requiem*. And the attractive Spanish song he gives to Katherine and her ladies – with its overlapping vocal lines and vivid rhythms ("Piaf of Aragon," said my companion) – has nothing to do with the songs known from the court of Ferdinand and Isabella, Katherine's parents. Jones's designs make a strong impression of court brilliance upon the eye, but they do little to suggest the passage of time (16 years in fact).

And, as the Old Lady, Cherry Morris is brimful of sheer human essence. By some strange fluke, Shakespeare is at his best in the few lines he gives to this minor character. Listening to her, we are keenly alive in the moment as nowhere else in the play.

Alastair Macaulay

In RSC repertory at the Swan Theatre, Stratford-upon-Avon.

INTERNATIONAL ARTS GUIDE

AMSTERDAM

CONCERT
Concertgebouw Tel: 31-20-6718345
● Borodin Quartet: with viola-player Gérard Caussé and cellist Mikhail Milman perform Tchaikovsky's String Quartet No.3 in E minor, Op.30 and Souvenir de Florence; 8.15pm; Nov 30

EXHIBITION
Stedelijk Museum Tel: 31-20-5732911
● The Unbelievable Truth: works by young artists living in Amsterdam and Glasgow. Central theme is the way in which these artists deal with the "truth". Included are works by Fanni Niemi-Junkola, A.P. Komen & Karen Murphy, David Shrigley, Job Koelewijn and John Shankie; to Dec 8

BARCELONA

EXHIBITION
Fundació la Caixa Tel: 34-3-4588907
● William Klein: William Klein was born in New York in 1928 and moved to Europe shortly after finishing his studies to dedicate himself to painting. He returned to New York in 1954, intending to produce a photographic journal of his return. He decided simply to shoot whatever appeared in front of his lens. This lack of inhibition resulted in a series of unorthodox photographs to be found in "New York, 1954-55", one of the most epochmaking books in the history of photography; to Dec 1

BERLIN

DANCE
Staatsoper Unter den Linden Tel: 49-30-20354438
● Ballett der Staatsoper Unter den Linden: perform Michail Fokine's Les Sylphides to music by Chopin, Le Spectre de la Rose to music by Von Weber, and The Dying Swan to music by Saint-Säens, Vaslav Nijinsky's L'Après-Midi d'un Faune to music by Debussy and Bronislava Nijinska's Les Noces to music by Stravinsky; 7pm; Dec 1

OPERA
Deutsche Oper Berlin Tel: 49-30-3438401
● Il Trovatore: by Verdi. Conducted by Paolo Olmi, performed by the Deutsche Oper Berlin. Soloists include Gyöngyi Lukács, Ulrike Helze and Roberto Servile; 7.30pm; Nov 29

BONN

OPERA
Oper der Stadt Bonn Tel: 49-228-7281
● Die Fledermaus: by J. Strauss. Conducted by Baldo Podic and performed by the Oper der Stadt Bonn. Soloists include Turid Karlsen, James Wood and Birgit Beer; 8pm; Nov 28

COLMAR

EXHIBITION
Musée d'Unterlinden Tel: 33-89 20 15 50
● Otto Dix et les Maitres Anciens: exhibition focusing on the work of Otto Dix (1891-1969) and that of 15th- and 16th-century German painters who were a main influence on his work. Specially the work of Mathias Grünewald was a source of inspiration for Dix; to Dec 1

DRESDEN

OPERA
Sächsische Staatsoper Dresden Tel: 49-351-49110
● Die Frau ohne Schatten: by R. Strauss. Conducted by Giuseppe Sinopoli, performed by the Sächsische Staatsoper Dresden. Soloists include Ben Heppner, Deborah Voigt and Hanna Schwarz; 6.30pm; Dec 1

DUBLIN

CONCERT
National Concert Hall Tel: 353-1-6711888
● Mozart Festival Orchestra: with conductor/harpsichordist Ian Watson, soprano Eirian Davies, violinist David Juritz and trumpeters Crispian Steele Perkins and Edward Hobart perform works by J.S. Bach, Pachelbel, Clarke, Stanley and Handel; 8pm; Nov 30

DUISBURG

OPERA
Theater der Stadt Duisburg Tel: 49-203-30090
● Don Giovanni: by Mozart. Conducted by Zoltán Peskó, performed by the Deutsche Oper am Rhein. The cast includes Stephen Bronk and Inessa Galante; 7.30pm; Nov 29

LINZ

CONCERT
Brucknerhaus Tel: 43-732-7612
● War Requiem, Op.66: by Britten. Conducted by Franz Welser-Möst, performed by the Symphonic Ensemble Aktuell and the Mozartchor des Linzer Musikgymnasiums. Soloists include Vivian Thierney, Anthony Rolfe Johnson and Hakan Hagegard; 7.30pm; Nov 29

LOS ANGELES

EXHIBITION
Los Angeles County Museum of Art Tel: 1-213-857-6000
● Ancient Art from the Shumei Family Collection: this exhibition features over 290 works of art from a broad geographical area, including China, Afghanistan, Iran, Egypt, and Greece. Highlights from the collection include an inlaid silver image of the Egyptian god Horus, a gold vessel adorned with heads of bulls from the Marlik region of Iran, a gilt-bronze and jade Chinese pendant from the 3rd-2nd century B.C., a selection of 12th-13th-century Persian ceramics, and a rare late 16th-century Islamic carpet; to Feb 9

MUNICH

DANCE
Nationaltheater Tel: 49-89-21851920
● Giselle: a choreography by Ek to music by Adam, performed by the Bayerisches Staatsballett. Soloists include Beate Vollack, Norbert Graf and others; 7.30pm; Dec 1

NEW YORK

CONCERT
Alice Tully Hall Tel: 1-212-875-5050
● Chamber Music Society of Lincoln Center: with conductor David Shifrin perform works by Schubert, R. Schumann and Chung; 5pm; Dec 1

OPERA
Metropolitan Opera House Tel: 1-212-362-6000
● A Midsummer Night's Dream: by Britten. Conducted by David Atherton, performed by the Metropolitan Opera. Soloists include McNair, Gustafson, Bunnell, Kowalski and Streit; 8pm; Nov 29

PARIS

CONCERT
Théâtre des Champs-Elysées Tel: 33-1 49 52 50 50
● Symfonisches Rundfunkorchester Baden-Baden: with conductors Michael Gielen and Heinz Holliger, violinist Thomas Zehetmair and the Edinburgh Choir perform works by Holliger and Kurtág. Part of the Festival d'Automne; 8.30pm; Nov 28

EXHIBITION
Musée d'Orsay Tel: 33-1 40 49 48 14
● L'Origine du Monde - autour d'un chef d'oeuvre de Courbet: exhibition seeking to retrace the history of Gustave Courbet's painting "L'Origine du Monde". Other major works included in the exhibition are Ingres' "Le Bain Turc" from the collection of the Musée du Louvre, "Le Sommeil" from the collection of the Musée du Petit Palais, and Courbet's "La Source de la Loue" from the collection of the Albright Knox Art Gallery in Buffalo; to Jan 5

ROME

CONCERT
Accademia Nazionale di Santa Cecilia Tel: 39-6-3611064
● Petite Messe: by Rossini. Performed by the Coro dell'Academia di Santa Cecilia. Soloists include pianists Michele Campanella and Stefania Cafaro, soprano Eva Mei, contralto Bernadette Manca Di Nissa, tenor José Bros and bass Michele Pertusi; 8.45pm; Nov 29

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Financial Times Business Tonight

CNBC:

08.30
Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight

Economic Viewpoint · Samuel Brittan

Beyond those fairytales

The tax burden is rising – not falling. But there has been a genuine gain in economic performance which should be protected from inflation

If Mr Kenneth Clarke, the British chancellor, had not boasted of tax reductions and increases in popular public spending there would have been little to criticise in the broad outlines of this week's Budget.

Mr Clarke could just have said that he had kept the rise in the tax burden down to the minimum necessary to finance public services – for which opinion polls show a clamour – but had marginally reallocated the burden. Then the whole process of unpicking the budget could not even have started.

There would also have been no need for him to confuse people by putting in a single pot the rises in the real value of their pay packets and the – admittedly smaller – increases in their tax deductions. The main price would have been *un mauvais quart d'heure* from some Tory backbenchers who do not like him anyway and perhaps some redundancies among spin doctors.

The best way to look at the Budget is to forget all the fairytales about non-existent typical families and instead buy, beg or borrow or steal a copy of the Financial Statement and Budget Report (often known as "the Red Book") and turn to Table 4A.9, page 88.

This shows taxes and national insurance contributions are expected to amount to 35¾ per cent of gross domestic product this financial year. They are then due to rise to 36¼ per cent in 1996-97, and after that to climb to 38 per cent by the turn of the century. (These projections include council tax).

A pessimist could say "fiscal drag" is still in operation and the tax burden is being driven up by the automatic effects of a progressive tax system on rising real incomes. An optimist might reply that the tax-take is merely recovering from the very low levels it reached in the aftermath of the recession of the early 1990s.

On either interpretation the tax burden is to remain a couple of percentage points higher than it was on average during the last Labour government of the 1970s. Not that Labour should complain, given the pro-spending priorities of its most moderate leaders.

We have indeed two social democratic parties – although both are more sensible than their continental equivalents who, in preparation for European monetary union, are now going through the agonising reappraisal forced on Britain at the time of the IMF borrowing in the mid-1970s.

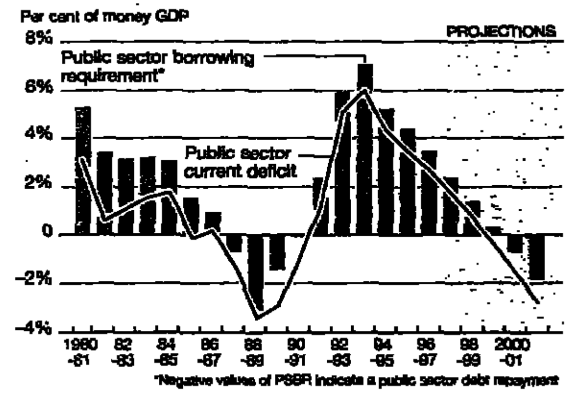
Meanwhile in the UK, the headline reductions in income tax rates and increases of allowances are more than offset by increases in indirect taxes and reductions in capital allowances which the Treasury hopes will strengthen the "tax base".

If few citizens understand how fiscal drag enables chancellors to increase the tax burden while talking of cuts, even fewer understand how he can appear to shower largesse on public spending favourites such as health and schools without breaching his spending guidelines.

The means is the contingency reserve which is fixed at £2¼bn for year one of the planning period, £5bn for year two and so on. As time rolls on and year two becomes year one, the chancellor quite legitimately reduces the reserve for that year by £2¾bn. He uses this to share out spending increases which had always been in the plans, but not specifically allocated to departments.

But how was the chancellor able to go beyond keeping the lid on spending and actually announce some modest reductions in previous projections? Partly because of a downward revision of inflation forecasts and devices such as the sales of armed forces living accommodation and the student loan portfolio.

The cycle and the deficit



Output growth and inflation: Treasury projections

Percentage changes on previous financial year

	1996-97	97-98	98-99	99-2000	2000-01	01-02
Output (GDP)	2¾	3¼	3	2½	2½	2½
Prices						
GDP deflator	2½	2	2	2	2	2
RPI ex MIPs*	3	2½	2	2	2	2
Money GDP	5¼	5½	5	4½	4½	4½

Source: The Red Book   *Mortgage interest payments

The fiscal puritans should be cheering at the tightening of the fiscal stance. If you add together the tax measures and the projected "cuts" in planned public spending the net result is a cumulative tightening of £5.2bn per annum by 1999-2000. When this is superimposed on existing plans, the public sector borrowing requirement is then expected to be down to some ¼ per cent of GDP.

But the puritans might be less happy about the dependence of the latest fiscal package on extra asset sales and measures to "improve tax compliance and fight tax evasion".

Looking at the government's fiscal record over a much longer period with the aid of the chart, there is one outstanding conclusion. This is that the fiscal outturn – whether the budget is in balance, surplus or deficit – depends overwhelmingly on the state of the business cycle. It depends much less on who is chancellor or on the definition used of the budget balance.

The chart also makes clear that the business cycle is very far from vanquished. It is in fact much more severe than in the early post-war decades and a good deal longer.

The problem with such a long cycle is to make politicians and businessmen take it seriously. In depressed years they tend to believe that a new era of permanent slump has arrived, while in more buoyant periods such as the late 1980s or 1990s they tend to exaggerate the leap forward that has occured.

Kenneth Clarke has much more to sing about on economic management, on which he is so reticent, than on taxes, on which he says so much. The big success story is that of the achievement of a more flexible labour market in reducing the unemployment rate consistent with stable inflation.

The Treasury still believes, moreover, that there is an output gap of around 1½ per cent of GDP which should permit above-trend growth for the next two years. Why then should the Bank of England and the financial markets be worried about a re-acceleration of inflation?

Much the most likely source of an inflationary overshoot is a growth of spending in nominal and in real terms a good deal higher than that shown in the Treasury or other mainstream forecasts. As Goldman Sachs reminds us and Nigel Lawson pointed out in his memoirs, the forecasts not only failed to predict the boom of the late 1980s, but the estimates of the existing rate of growth were too low.

Whatever the channels of transmission, there are many signs of inflationary pressures in the pipeline. The continued increase in both the standard measures of the money supply above their monitored ranges cannot be ignored – especially given the increases in asset prices such as homes and equities. The proceeds of building society flotations should add the equivalent of 3 per cent to real personal disposal income in 1997.

The old dilemma of whether to increase interest rates as a pre-emptive strike against inflation or let the rising value of the pound do the job is still with us. Despite Bank of England scepticism, there is still a trade-off between the level of sterling and how high base rates will have to rise.

It could indeed be argued that if interest rates were jerked up quickly by a full percentage point, the exchange rate could then flatten out, to the relief of exporters. Unfortunately a much more gradual and reluctant dribbling out of fractional increases is more likely under the present collegiate system of setting UK interest rates.

BOOK REVIEW · Martin Wolf

THE COMING RUSSIAN BOOM: A GUIDE TO NEW MARKETS AND POLITICS: By Richard Layard and John Parker
The Free Press, 384pp. $27.50

Potential despite the turbulence

Imagine a prosperous, democratic and friendly Russia. The notion is mouth-watering. But is it likely? Many would prophesy, instead, a Russia turbulent in itself and a source of turbulence in others.

A merit of this book by Richard Layard, a professor at the London School of Economics and adviser to the Russian government, and John Parker, former Moscow correspondent of The Economist, is that it challenges fashionable pessimism. But this is far from its only virtue: it is well-informed, cogently argued and considerably more balanced than its title suggests.

"The most likely outcome," argue the authors, "is a continuation of 'muddling through' in politics, and market deepening in economics." Moreover, "whatever happens to the politics, there will be strong economic growth, based on private enterprise. . . . It will remain a hard place to do business, but foreigners will reap good returns from investing in the large domestic market and in Russia's amazing natural resources."

The economic scenario judged most likely by the authors – growth averaging at least 5 per cent a year – is hardly that optimistic. The loss of half of industrial output since 1990 should itself offer considerable opportunities for recovery. More fundamentally, real income per head is on a par with Turkey's. Yet Russia possesses a highly educated population and a treasure house of resources. It is difficult to imagine a country better equipped, on paper, to catch up rapidly on the west.

In their general optimism, the authors rightly dismiss facile historical determinism. Far more important than ancient history has been the huge challenge facing Russia since 1991 "simultaneously to create a market economy, build a democracy and a state, and rid itself of an empire".

Given the scale of the task, the achievements have been considerable: Russia has avoided war with its neighbours; established a democratic constitution; rejected both communists and nationalists; brought inflation under control; and shifted from central planning to a market economy, however imperfect.

Most complaints against the direction of the initial reforms are – as the authors argue – ridiculous. Price liberalisation had to be fast when goods had virtually disappeared from the shops. And monetary policy had to be tight when inflation was 25 per cent a month.

The efforts of the reformers were not misguided; their goal was merely difficult to achieve. Things were made no easier by mistakes at home and abroad.

When, in late 1991 and early 1992, Russia's new and fragile government needed swift help to underpin reform and stabilise the currency, "the main preoccupation of western governments was that . . . responsibility for the Soviet debt be clearly allocated".

History will judge this misdirected attention and the consequent delay in assisting the reformers as the west's most tragic error since the 1930s. More understandable, though equally disastrous, were mistakes in Russia itself, particularly the delay in recognising the link between monetary growth and inflation.

Fortunately, reform was not abandoned. The question now is whether it can survive crime and corruption.

"The Soviet gang," admits the book, "was one of the few institutions to do well from reform." The main reason is that organised crime offers a service – the enforcement of property rights – that the state fails to provide.

A related danger is the way so few have acquired so much at the expense of so many. Hasty privatisation, particularly of natural resources, has been one reason. Far more important, however, has been privileged access to underpriced commodities and the credit with which to buy them. The book argues that income inequality is smaller than in the US. But these figures must understate the effects of the recent plunder on the distribution of wealth.

The mixture of criminality, corruption and inequality threatens the emergence of a Latin American polity, with a selfish oligarchy pitted against populist demagogues eager for their share of the spoils. Alternatively, the discredited state could simply disintegrate.

The first scenario might be consistent with the fairly modest rates of growth forecast by the authors for the next 10 years. But it would be much less than Russia can achieve. Whether it does perform better still depends on that ailing titan, President Boris Yeltsin. Can he summon up the will and the energy to enforce the rule of law and liberalise the controls that engender corruption? That the efforts of this flawed hero remain so vital demonstrates how far Russia still is from being a "normal country".

The Coming Russian Boom is available from FT Bookshop by ringing FreeCall 0500 418 419 (UK) or +44 181 964 1251 (outside the UK). Free p&p in UK

LETTERS TO THE EDITOR

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Translation may be available for letters written in the main international languages.

Postal liberalisation must not be delayed

From Mr Alastair Tempest.

Sir, A debate has been rumbling on for almost a decade now in EU institutions focusing on European postal liberalisation. We are now about to reach a turning point on this matter: on November 28 EU ministers responsible for post will be asked, for the third time this year, to agree to a common position on the way forward on postal liberalisation.

The Postal Users Group (which includes, among others, the Federation of European Direct Marketing, the European Association of Advertising Agencies, the European Mail Order Traders Association and the European Magazine Publishers Federation) is, however, concerned by a Franco-German initiative which would postpone until 2003 the modernisation of European postal services and delay any decision on the gradual opening of monopoly markets, such as direct mail and cross-border mail.

We urge Mr Karel van Miert, the competition commissioner, to push for the adoption of a notice to apply competition rules to the postal sector by the end of this year. If this is not done, the outdated views within some of Europe's most traditional post offices will have scored a considerable victory in further delaying postal liberalisation throughout the EU. That would be a great blow to consumers, businesses operating in the postal sector and commercial postal users – all of whom would benefit greatly from a more efficient and cost-effective postal service.

As representatives of the largest postal customers in Europe united in opposition to the Franco-German "compromise", we appeal to EU ministers to seize the opportunity on November 28 to agree to the very gradual steps towards postal liberalisation beginning in 2001 which have been proposed by the European Commission in its original, published version of the draft postal directive.

**Alastair Tempest,
The Postal Users Group,
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Belgium**

The need to monitor child labour code

From Mr Bill Jordan and others.

Sir, We welcome the news, as reported in "Sports groups aim to combat child labour" (November 23) that the World Federation of the Sporting Goods Industry will draw up a code of practice aimed at eradicating child labour in the industry. Our organisations represent the people who actually make and sell sporting goods and we want to work with the industry to develop a comprehensive code as we have already done with Fifa (football's world governing body) concerning the production of soccer balls bearing their logo.

Our research has shown that child labour rarely exists on its own but goes hand in hand with a whole range of other exploitative labour practices, which include cruelty and bullying by managers and wage levels below local minimums, with which the sporting goods industry is riddled, and which need to be addressed.

Codes of conduct for the industry are certainly one of the answers. But codes that ignore trade union rights and that do not provide for independent monitoring of how the code is working – for example, employees being surrounded by managers when "monitoring" teams ask them about their rights – will be unable to guarantee consumers and the public that goods are being made under decent working conditions.

**Bill Jordan,
International Confederation of Free Trade Unions,
Neil Kearney,
International Textile Garment and Leatherworkers' Association,
Philip Jennings,
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Baffled over check-in time

From Dr S.D. Dover.

Sir, Your correspondent Michael Skapinker warns of the need to allow more than two hours for checking in on long-distance flights ("Passengers held in check", November 25). I am baffled as to why the distance matters, and it does seem to matter. It takes more than twice as long to check in a small suitcase from London's Heathrow to Los Angeles as a large suitcase, plus skis and boots, to Geneva.

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A clear and well-balanced view of a libertarian country

From Ms Isabelle Cordonnier.

Sir, Reading Michael Prowse's dissertation on the relationship between the US and Europe ("A deep debt of gratitude", November 25), I felt I had to offer him my most sincere thanks for giving us a clear and well-balanced view of US in 1996. I totally agree with him saying that the US is doing a very good job in providing international leadership as well as remaining a great libertarian country.

I have just returned from the US where I was lucky to spend 18 months at the University of Saint-Louis in Missouri. Like most teenagers I was very pro-American before leaving. I am a native of France, whose strongly defended culture coexists well with the influences of America's culture.

However, living in the US made me aware of the downsides of American society: an archaic welfare system, a large middle-class tied between wealthy entrepreneurs and ever-growing minorities, the freedom to carry guns. Many things have been written on the prospects and possible decay of the American society, but I agree with Mr Prowse that this should be seen relative to other societies, for example European ones. In recent years the Americans have shown continued performance on the international scene. Back in the cold war, the US and Russia were two dominant superpowers fighting for world supremacy. Fifty years later needless to say who the winner is.

Moreover, compared to France where unemployment is very high, and rising, and social protection abused, the US seems still to fit the description of the American dream. The entrepreneurial spirit and incredible dynamism of the Americans are for me the greatest values, and today as I am thinking of setting up my own business there is no place other than the US where I would like to do it.

I would like again to thank Mr Prowse for his insight into the American society. He is right, Europe has a lot to learn from the US. I would like to add that the US has a lot to win by looking on the side of the booming and dynamic Asian countries.

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COMMENT & ANALYSIS

FINANCIAL TIMES

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Thursday November 28 1996

Japan's slow recovery

The latest reports from corporate Japan – along with the Tankan, the Bank of Japan's survey of business – confirm that the economy is returning slowly to health. But it remains frail. Both the Bank of Japan and the Ministry of Finance must avoid complacency if the recovery is not to abort.

Overall, the pace of profits growth slowed in the six months to September. But aggregate profits, before tax and extraordinary items, still rose 15.7 per cent above the corresponding period of last year, five percentage points more than companies forecast.

Profits of manufacturers rose slightly less, at 14.7 per cent. The modest outlook for profits in manufacturing was underlined by the Tankan, with a balance of 3 per cent of producers judging the economy weak. This does not seem particularly encouraging, but it is less gloomy than in August. Big exporters are doing particularly well, helped by their success in reducing costs and the 29.7 per cent depreciation of the yen between April 1995 and October 1996. Outstanding examples are Toyota and Matsushita.

Not only have profits improved, but the labour market is strengthening and industrial output has recovered. Yet the picture remains mixed: gross domestic product in the first half of 1996 was 4.7 per cent up on the same period of 1995; but industrial output has oscillated this year and is below its peak of 1991.

Albeit helpful to the economy, better trade performance is a potential source of external conflict. This is particularly true when the authorities have themselves worked hard to weaken the currency. Between March 1995 and October 1996, Japan's official net purchases of gold and foreign exchange amounted to US$75bn, bringing the reserves to $216bn.

Large official purchases of foreign assets, a discount rate at only 0.5 per cent and a budget deficit of 7 per cent of gross domestic product represent an extraordinary effort at priming the economic pump. Yet broad money is growing at only 3 per cent to 4 per cent a year, while GDP declined 0.7 per cent in the second quarter, though after 2.9 per cent growth in the first.

Heroic efforts – but, at least by historic Japanese standards, modest results – remain the picture. In an economy still burdened by weak financial institutions and high private savings in relation to opportunities for investment, monetary and fiscal stimuli must not be withdrawn prematurely. In the longer run, however, the only effective solution remains what it has long been – deregulation aimed at raising propensities to consume and invest at home.

Europe's shame

Algerians are bidden to to vote today on a revised constitution proposed by Lamine Zeroual, the president. The exercise bears some resemblance to last weekend's referendum in Belarus, except that the Algerian leader is pre-empting the powers of a future parliament rather than abolishing those of an existing one. Like Mr Alexander Lukashenko he is using control of the media to railroad through changes which confirm his monopoly of power, without giving voters a chance to hear the opposition's case.

In another respect Algeria is more like Chechnya than Belarus: the civil war raging there since 1992 has now claimed between 80,000 and 100,000 victims, according to the chairman of the Algerian human rights league, Mr Abdennour Ali Yahia. Yet events in Algeria, which is much closer to western Europe than Belarus or Chechnya, get less coverage than either in most western media.

Western governments are on the whole happy to leave public opinion in the dark. Most of them are secretly relieved that the Algerian army, from which Mr Zeroual emanates, has kept what is left of the state out of Islamist hands.

But for many Algerians rule by the Islamic Salvation Front, if it had been allowed to win power through the ballot-box in 1992, might have been preferable to the terror sown since then by armed Islamic splinter groups, and to the equally vicious and indiscriminate repression with which the regime has responded. Life has been made hell for journalists and others who refuse the grim choice between Islamic zealotry and military dictatorship. Only the hydrocarbon sector, the state's main source of income, has so far been spared.

Those Algerians who seek to end the violence through negotiation and a genuine democratic process are entitled to support from European neighbours who constantly proclaim their belief in those values.

The EU should put democracy and human rights at the centre of the partnership agreement it is now negotiating with Algeria. In particular it should insist on sending trained observers to monitor voting procedures and media coverage of the campaign for next year's elections.

And multilateral agencies should be less complaisant about accepting the regime's economic "reforms" at its own valuation. The new law on trade liberalisation, for instance, is of little significance when the private sector is denied freedom to import foodstuffs and the new constitution states that "foreign trade falls within the competence of the state". To accept such a regime as reforming is an insult to the Algerian people.

Easy tax victims

The Tories are the friends of private enterprise, oh yes. So why do they they think, as Labour does, that business is not paying enough tax?

In his Budget on Tuesday, Mr Kenneth Clarke, the UK chancellor, hit the sector with a bill for £3½bn over the next three years. He is also recruiting a small army of inspectors to scoop up another £2bn by clamping down on avoidance and evasion. In this he has stolen one of Labour's best lines. In the search for revenue, neither party has spent much time considering whether such an effort would be sufficiently rewarding.

Certainly, company profits are buoyant. But as a result the sector has been paying more corporation tax. Revenues are up 11 per cent this year, and 75 per cent on 1993.

Nor can it be argued that UK companies pay less than their fair share compared to those in other countries. Taxes on company profits raise a larger share of revenues in the UK than in Canada, France and Germany, a similar amount compared to the US, and less than in Japan and Italy.

There are more fundamental reasons why taxes on companies should not be too high. Any tax levied against a company must be borne in the first instance by shareholders, either as lower dividends or a lower share price. This reduces the return on capital and so tends to squeeze investment. In such circumstances, some companies will shift production to countries with lower taxes, and this would be bad for economic growth and jobs.

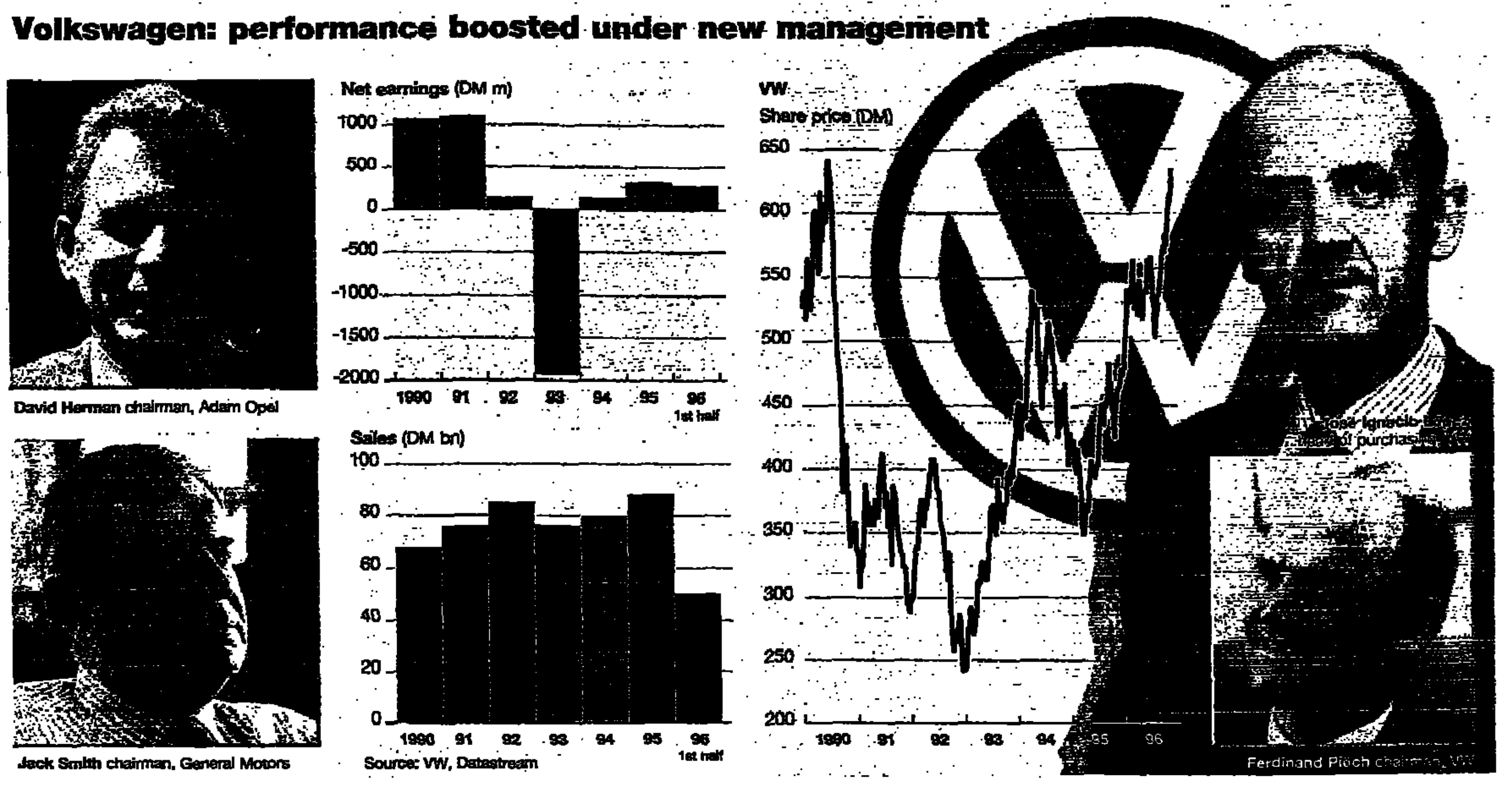
Second, shareholders will want companies to try to offset the burden of extra corporate taxes by firing workers or putting up prices. So although companies pay tax in the sense of writing the cheque, the burden will fall on consumers, workers and shareholders.

Even so, in practice, some large companies do appear to pay little or no corporation tax. The Treasury has also found a worrying £6bn shortfall in value added tax revenues compared to the past pattern. After searching in vain for explanations, the Treasury is left with tax evasion and avoidance.

Some of the loopholes closed by Mr Clarke on Tuesday were well worth attacking. But in general there are reasons why profitable companies may pay little tax – for example if they have invested heavily in the past. And where companies are exploiting international loopholes to minimise their tax bill, it is hard for any individual state to bring them into the net.

Too often in the past taxraising politicians have seen the corporate sector as an easy victim. They should remember that, in this context, there is no such thing as the company; only shareholders, employees and consumers will pay.

Volkswagen: performance boosted under new management



David Herman chairman, Adam Opel

Jack Smith chairman, General Motors

Ferdinand Piëch chairman, VW

Driven on to the defensive

VW is under pressure to settle with GM over accusations of industrial espionage, say **Haig Simonian** and **Wolfgang Münchau**

In the press office at Volkswagen's vast headquarters at Wolfsburg, northern Germany, Mr José Ignacio López is known as an unguided missile. No one can predict which way he might veer, but all know that when he lands, the impact is usually explosive.

This week has brought the high-flying Spanish executive, renowned in the motor industry for his visionary style of management, closer to earth. A US federal judge in Detroit ruled on Tuesday that General Motors can pursue a civil court case over accusations that Mr López stole secret documents on a new car and factory when he left Opel, its German subsidiary, to join VW in March 1993.

The case has been brought under the Racketeer Influenced and Corrupt Organisations Act (Rico), a law normally used against organised crime which allows the court to award damages three times larger than in normal civil cases. The decision has increased the pressure on VW to seek an agreement with GM that would end the increasingly acrimonious dispute between the two multinationals.

The "López affair" now threatens the career of the man who – with Mr Ferdinand Piëch, VW's chairman – has revived the fortunes of Europe's largest car manufacturer.

One of his main contributions has been to help VW reduce the prices it pays to suppliers – a skill he developed while working for GM's Spanish subsidiary, and honed as the group's head of worldwide purchasing at its Detroit headquarters.

There he acquired a reputation as a tough cost-cutter – largely as a result of his ability to negotiate discounts with components suppliers whose products account for about 60 per cent of the value of a vehicle. Any action that can be taken to cut costs by gaining discounts on parts has an immediate impact on product prices – and consequently on competitiveness and profitability.

Since joining VW, Mr López has applied similar methods. He has also broadened its supplier base beyond high-cost Germany – including many suppliers from southern and eastern Europe. VW plans to raise the value of Hungarian-sourced components to DM200m (£78.10m) by 2000 from next to nothing before Mr López's arrival.

Mr López's reputation goes beyond his ability to cut purchasing costs. He is also a leading exponent of a new way to make cars. Part of his approach entails involving workers more closely to improve quality and productivity – much along the lines pioneered by the Japanese.

VW has given Mr Lopez a broad canvas to test his theories. The group, which includes Audi in Germany, Skoda in the Czech Republic and Seat in Spain, has added more capacity in the 1990s than any other car company.

In Europe, it has new car and engine plants at Mosel and Chemnitz in the former communist eastern Germany and a big paint and assembly facility for Skoda in the Czech Republic. Expansion has been even greater in South America where VW is market leader, with the opening of a new Brazilian engine plant and Argentine car factory in the past year.

All the new facilities reflect Mr López's views on "empowering" workers to perform more productively and pay more attention to quality. Most also involve closer links with suppliers in which the latter work in partnership with VW to build vehicles.

The new Skoda plant and VW's Pacheco factory in Argentina use ready-assembled component "modules", such as entire dashboards or front bodies built at or near the factory by suppliers.

However, it is at the Resende truck and bus plant in Brazil, opened this month, that Mr López has been able to put his most revolutionary thoughts into practice. When the new "modular consortium" facility reaches full output next year, employees from suppliers will fit components directly on the production line.

Mr López claims to have cut an extraordinary DM17bn off VW's group purchasing bill and saved a further DM1.2bn in manufacturing expenditure since he joined.

It is impossible to verify such claims. Neither VW nor its suppliers publicise their contractual relationships. However, while a few motor industry executives dismiss some of Mr López's more extreme ideas as unworkable, many concede he is reshaping the industry.

"He is challenging conventional wisdom. We have seen him do a lot of things people said were impossible," says one former colleague. And Mr Karl Huebser, head of engine and parts production at Audi, says: "With the entry of López, a lot started to change in the group. There has been new movement and new thinking in cars."

It is unclear whether Mr López will be able to complete his work at VW, given the pressure from the lawsuits. Although there have been reports that VW may seek an out-of-court settlement with GM, the affair has become so personalthat this may be hard to achieve.

Mr Jack Smith, GM's chairman, is believed to have taken affront at being rebuffed in his efforts to retain Mr López in 1993. For Mr David Herman, chairman of Adam Opel, GM's German subsidiary, and Mr Piëch, the case has turned into a vendetta.

The dispute has also gained a sharp political edge. A fifth of the shares in VW are held by the state government of Lower Saxony. Mr Gerhard Schröder, the Social Democrat state premier and a member of VW's supervisory board, has accused Opel and Mr Herman of "waging a war" against the German car industry.

GM yesterday denied reports in the German press that VW had sounded it out earlier this year about an out-of-court agreement. The company maintained VW would have to issue a public apology and fire Mr López before it let up the pressure. It would also demand substantial damages – with rumours that the figure sought may be as high as $2bn.

But even if VW and GM were to reach agreement, there are still serious criminal issues to be addressed. The long-running German criminal investigation is expected to culminate in an indictment of Mr López before the end of the year.

A German court this week decided documents containing over 200 witness statements could be made available to the Federal Bureau of Investigation and the US Justice department which are pursuing their own criminal investigation.

VW has so far oozed confidence and maintains that the case has yet to be tried on its merits. But the Rico suit has raised the stakes, and could yet persuade the German group that discretion is the better part of valour.

On a collision course

The events that triggered the dispute between the two car companies began in late 1992 when Mr López met Mr Ferdinand Piëch, who had just taken over as chairman of VW. He had an ambitious brief to restructure the ailing group and wanted Mr López to play a central role in improving productivity and cutting costs.

On December 2, according to Opel, Mr López asked for 150 charts detailing Opel's purchasing strategy to be translated into German (even though he barely spoke the language). Several meetings then took place between Mr López and senior VW officials.

On March 8 1993, while other managers were busy test-driving cars at a two-day seminar on Opel's future model strategy, Mr López requested a special briefing from Mr Fritz Indra, head of the future projects department, and asked for copies of the presentations given. Hours later, he resigned from GM.

Three days later, on March 13, Mr López agreed to postpone his move to VW for a year in return for becoming president of GM's North American operations. The US company scheduled a news conference on March 15 to announce the news.

But before it was held – and after a telephone conversation with Mr Piëch – Mr López changed his mind again and resigned, this time for good. He flew straight to Germany, starting work as VW's new head of purchasing and production optimisation the following day.

GM began searching Mr López's offices in Detroit and found various papers were missing. A week later, seven other GM employees resigned to join Mr López.

On April 30, Opel asked state prosecutors at Darmstadt, south of Frankfurt, to begin criminal investigations. Their inquiries have taken three and a half years, with charges expected soon. Within two months of starting the inquiries, a police raid on a Wiesbaden apartment rented by aides of Mr López found documents relating to GM's new car.

Vw denies any involvement in industrial espionage or conspiracy, and Mr Piëch has defended Mr López throughout. But the dispute now blights the careers of both men and may lead to the departure of Mr López.

· OBSERVER ·

The long march south

■ It's perhaps no big deal that a British law firm is closing its office in Hanoi, except that there's a fairly extraordinary background to this tale, as the firm – Sinclair Roche & Temperley – played a crucial part in aiding Vietnam's independence struggle.

Back in 1935 a young revolutionary named Ho Chi Minh was hiding illegally in Hong Kong, plotting the next stage of the overthrow of the French colonial regime in what is now Vietnam.

Police in the British colony arrested him – but without a warrant. A lawyer from Sinclairs, hearing of Ho's arrest and sympathetic to his plight, eventually secured a writ of *habeas corpus* against the colonial authorities, though not until the case went all the way to the privy council in London.

Once free, Ho sneaked across the border into south China, again with the help of Sinclairs. The rest, as they say, is history.

Sinclair Roche & Temperley's action did not go unnoticed in a country that still reveres Ho as a national hero. When the firm applied to open an office in Vietnam in 1992 it was quickly approved, making Sinclairs the first British firm to do so.

Alas, it's now closing its Hanoi operation by the end of the year, to concentrate on its shipping clients down south, appropriately enough, in Ho Chi Minh City.

Pyrotechnical

■ Sir Alistair Morton, the outspoken and recently departed joint chairman of Eurotunnel, had the ill-luck to stage his little retirement party from the group just a day after the disastrous fire on Monday last week, a conflagration that has caused the costly temporary closure of the Channel tunnel link.

Still, it did provide one of his guests the chance to offer him an unusual leaving present – a large, blackened chunk of concrete, taken from the roof of the tunnel after the fire. Not the most pleasant of gifts perhaps; but given that the blaze may end up costing the company as much as FFr2bn, it was certainly a priceless gesture.

Insure yourself

■ Things are getting warm for Jan Monkiewicz, head of PZU, Poland's largest insurer, with close to a 60 per cent share of the country's non-life market.

Monkiewicz has been in charge of PZU since earlier this year. Now Solidarity, the trade union movement, wants him sacked because his plan for a private placement next year – designed to raise PZU's capital by between $90m and $300m – will, it alleges, cheat the state of privatisation revenues.

Not that Solidarity is being entirely altruistic here. After all, it harbours plans to contest parliamentary elections late next year, and it needs to remove PZU from the sphere of influence of the ruling party, the former communist SLD, to say nothing of blocking any possible campaign donations the PZU might consider directing towards the SLD.

Potential investors in PZU can of course always console themselves with the thought all this makes Poland sound a bit like Italy – though without the climate, the opera, the wine, the food...

Unplanned exit

■ Yesterday's abrupt resignation of Terje Roed-Larsen, Norway's planning minister (or deputy prime minister in all but name) over allegations concerning some personal financial transactions, is being seen by some in Scandinavia as yet further evidence that Norwegians don't take to fellow citizens who are thought to have got above themselves.

Those Norwegians who do cut a figure on the international stage – such as the late Johan Joergen Holst, the foreign minister who was crucial in bringing the Palestinians and Israelis to agreement, and former prime minister Gro Harlem Brundtland, a possible candidate for the next UN secretary-general – are always reckoned by some of their compatriots to be a little too big for their boots.

Roed-Larsen's fame came through his untiring efforts, with his diplomat wife Mona Juul, to continue Holst's work on improving Palestinian-Israeli relations. Intellectually bright, Roed-Larsen is one of nature's risktakers. As if echoing his name – Roed means red in English – he dabbled with Trotskyism in his student days; Brundtland apparently found him a little too left for her cabinets.

Lick the rat race

■ Rats nurtured by loving mothers handle stress better, according to research from Montreal's McGill University. Plenty of grooming and licking in infancy helps rodents cope with everyday hazards of life, such as being confined in narrow plastic tubes; city commuters everywhere will certainly sympathise.

Financial Times

100 years ago

The Hungarian Reichstag
Buda Pesth, 27th Nov: The newly-elected Hungarian Parliament was opened by the Emperor-King in the Castle of Ofen this morning. His Majesty declared in the speech from the Throne that the Diet would be called upon to renew the financial agreement with Croatia, and to carry out the reform of the administration of the country . . . The position of small landowners was the object of the perpetual solicitude of the Government, and to promote their interests arrangements were being planned for the association of economic forces, the development of the agrarian bank system, the providing of proper means for the transport of animals and insurance against loss of cattle.

50 years ago

M. Monnet's Plan
Paris: The five-year plan drafted by the Monnet Committee and published to-day will, if carried out, modernise French industry and expand production by 1950 up to 25 per cent above the record year of 1929. M. Monnet wants first a 48-hour week, replacing the 40-hour week, equilibrium of the ordinary Budget and stability of prices and currency.

FINANCIAL TIMES
Thursday November 28 1996

VW shares decline after US court ruling in row with GM

By Wolfgang Münchau in Frankfurt and Haig Simonian in London

Shares in Volkswagen, Germany's biggest car manufacturer, fell by almost 6 per cent yesterday after a US court ruling which could significantly increase the damages the company might face should it lose its bitter legal battle with General Motors.

The court, in Detroit, allowed GM to proceed with its civil suit against VW under the Racketeer Influenced and Corrupt Organisations (Rico) Act, a law against organised crime, over allegations of industrial espionage.

The drop in the share price came as Adam Opel, GM's German subsidiary, issued its most strident demand to date that Volkswagen sack Mr José Ignacio López, its head of purchasing and production. GM alleges that Mr Lopez took confidential new product material with him when he defected to VW in March 1993.

Opel also repeated demands for significant compensation for damages it allegedly incurred and a full public apology. The company denied German media reports that talks had taken place with VW on a possible out-of-court settlement, but indicated these would be its minimum terms for any such deal.

In a separate setback, Audi, VW's executive cars subsidiary, announced that Mr Graham Morris, the ex-Rover manager who is its board member for sales and marketing, is resigning on personal grounds. Mr Morris, who joined Audi in 1995, had left his family in north-west England and commuted regularly at weekends. Mr Morris is expected to become head of sales at Rolls-Royce Motor Cars.

The US court decision triggered a sharp fall in VW shares in Frankfurt to DM601.25. Some dealers said the fall was reinforced by reports that VW might have to move to short-time working at its main Wolfsburg plant because of supply hold-ups caused by the French transport strike. However, most ascribed the fall to the US court decision, which had prompted profit taking after recent strength in VW's equity, based on the company's improving financial performance.

Opel said: "No out-of-court resolution of this controversy is possible until the leadership of Volkswagen and its management board acknowledge the wrongful conduct that occurred and accept responsibility to remedy the wrongdoing by, among other measures, dismissing López and his collaborators and compensating for the severe damages caused." Volkswagen rejected the demands but said it was ready to negotiate without conditions. The company denies industrial espionage.

Driven on to the defensive, Page 13
See Lex

Row looms in US over plan to tighten clean air rules

By Patti Waldmeir in Washington and Richard Waters in New York

The US Environmental Protection Agency yesterday proposed stricter standards for air emissions in a move likely to spark a battle between industry and public health advocates in Congress and the White House.

Ms Carol Browner, the EPA administrator, proposed tight new standards for emissions of the chemicals and particles that form smog and soot, saying the measures would save at least 20,000 lives a year.

She said the proposed measures, the biggest tightening of air pollution standards since the late 1960s, were both "common sense and cost-effective". They include a limit on smog-forming ozone pollution of eight parts per billion measured over eight hours (compared with 12 parts per billion per hour at present) and stricter standards for the tiniest airborne particles of 2.5 microns, which can damage lung tissue.

The announcement is a blow to business groups, state governors and city mayors who lobbied hard against the proposals. They say industry would be forced to spend billions of dollars to meet the new standards without any proven public health benefit.

States and cities responsible for implementing them might have to impose controls, including curbs on travel, lawn mowers and barbecues.

A spokesman for the National Association of Manufacturers said the effect of the measures would be "astronomical, both in terms of cost and lifestyle", while the Air Standards Quality Coalition, a lobby group formed to fight the proposals, predicted a "very significant negative impact on economic growth".

"The EPA is setting the standard, and then doing the research and gathering the information," the ASQC said.

But the American Lung Association, which says tens of thousands die annually because of particle emissions, welcomed the proposals.

The EPA proposals have taken years to prepare. They will now be subject to public comment, with a battle likely in the Republican-dominated Congress. Congress will examine the standards in the first big test of the authority to review regulation granted to legislators last year.

Business groups acknowledged that, though many Republicans would oppose the new regulations, they faced an uphill struggle to persuade Congress to change them.

The EPA is expected to make the rules permanent by next summer. It could take a further three to five years before the standards are implemented by individual states.

GEC head casts doubt on purchase

Continued from Page 1

shareholders in Framatome – of which it is one – to get between 16 and 20 per cent of any merged entity.

CEA acknowledged bankers' valuations of the assets to be pooled in the proposed merger have to be completed.

According to one analyst's calculations, a straight conversion of assets to equity would give the French state and other shareholders just 9.5 per cent.

CEA also made clear that the state-controlled shareholders would want what amounts to a right of veto over any proposed transfer of nuclear technology by a merged entity and over the main lines of its financial policy.

The other two state shareholders are Electricité de France and Consortium de Réalisations.

IBM to build two plants in Thailand

By Ted Bardacke in Bangkok

International Business Machines of the US will next week announce an investment worth as much as $590m to build two factories in Thailand to make hard-disc drives. The move will strengthen the country's role as a production base for medium-end computer parts.

IBM's commitment follows an announcement by Thailand's Board of Investment which yesterday granted promotional tax incentives to the company. Normally, such incentives form the last stage in the process of a foreign company setting up a manufacturing facility in Thailand.

Board officials said the plants would be wholly owned by IBM. They would be situated in Thailand's booming eastern seaboard region, and would export about 80 per cent of output. Full capacity, capable of generating annual revenue of about $250m, is to be in place by the end of next year.

IBM is the latest in a string of top US companies making large investments in Thailand, a sign that the country's political instability is not a prohibitive deterrent. The board approved the IBM deal in the middle of a political transition that had left Thailand with, in effect, no government. In the past year, General Motors, Ford and Kellogg's have chosen Thailand for their production base for south-east Asia.

IBM officials said it was the Japanese arm of the company that helped put the deal together. Thailand is the leading destination for Japanese investment in Asia, and IBM already manufactures about 120m hard-disc drives annually in the country, mostly for export to Japan via a joint venture with Thailand's Saha Union group.

Although Thailand is the hub of car and steel production in south-east Asia, it has lagged behind Malaysia and Singapore in high-technology manufacturing because of a shortage of skilled workers. However, as wages in those countries have started to rise, Thailand is becoming the location of choice for companies manufacturing medium-end computer parts, such as keyboards, monitors and disc drives.

Seagate Technology, the world's largest independent producer of hard-disc drives, is also Thailand's largest employer with nearly 40,000 workers. Its exports have helped make computer parts Thailand's fastest growing export category.

The country desperately needs such investment because its traditional exports – low-wage assembly, textiles, footwear and seafood – are declining.

THE LEX COLUMN

Pride and Prejudice

In France, they call it "Thomsongate" – a document supposedly reporting a conversation in which Lord Weinstock, General Electric Company's former managing director, and Mr George Simpson, who now holds the job, plot to take control of the French electronics and nuclear industry. Given the current hysteria in France over national assets being sold to foreigners, it is not surprising Lord Weinstock has been forced to denounce the document as a fake. Still, the episode leaves the future privatisation of both Thomson, the electronics group, and Framatome, the nuclear equipment manufacturer, as muddled as ever.

A month ago, the sale of Thomson to Lagardère and Korea's Daewoo seemed a formality. But such has been the public backlash to the plan for the Korean group to receive billions of francs for taking Thomson's bankrupt consumer electronics business off the state's hands that all bets are off. Alcatel Alsthom, the other bidder, is exploiting the situation by presenting itself as the friend of both the French taxpayer and Gallic pride. It is doubtful the two are really reconcilable – certainly if Alcatel wants to advance its own shareholders' interests. But, if it does manoeuvre itself into control of Thomson, GEC should benefit. Alcatel would be more sympathetic than Lagardère to merging Thomson's and GEC's defence businesses – a deal that would create substantial value because of their large overlap.

Framatome is a sideshow by comparison, but no less tangled for that. The French want to merge Framatome with GEC-Alsthom, the 50:50 power and engineering venture between GEC and Alcatel. That would make some industrial sense. The snag is that the government is insisting on GEC's stake being cut to below 50 per cent as part of the deal, something the British company is understandably unhappy about. A cosmetic compromise – diluting GEC's shareholding but maintaining joint control – may be negotiable. But do not count on it.

Black empowerment

Anglo American's sale of its controlling stake in JCI, the mining house, to a black consortium for R2.8bn ($610m) has enormous symbolic importance. Unlike South Africa's other big black empowerment deals, this one involves selling control of a significant industrial group to black investors. It also seems clear the new owners will be able to add value to JCI, as white bosses are finding it hard to motivate black miners.

FTSE Eurotrack 200:
1907.7 (-5.4)

Black empowerment cannot happen overnight, because black people simply do not have enough capital to buy big swathes of industry. Still, the fact that there was a competitive auction for JCI suggests that more deals in the mining sector could be in the offing. Mr Cyril Ramaphosa, the ANC secretary-general who lost the bidding, is likely to turn his attention elsewhere. Gold Fields of South Africa – an extremely rich mining group with poor labour relations – would be an obvious target. But first it will be necessary to unravel its labyrinthine ownership structure.

Volkswagen

The legal battle between Volkswagen and General Motors over allegations of industrial espionage has been dragging on for four years. All of a sudden, however, investors are taking it seriously; VW's shares dropped 6 per cent yesterday.

There are three reasons. First is the realisation that the German car maker may end up having to pay out a serious amount of money. A recent ruling by a US judge allows GM to sue under America's racketeering laws, which exposes VW to much higher damages. Of course, VW has yet to be found guilty of anything. But assume a 50 per cent probability that it might have to pay $2bn in damages – the figure most analysts guess at – two years from now. Discounting that back at 10 per cent a year suggests a cost of $830m, almost exactly the amount that was knocked off VW's market capitalisation yesterday.

More intangible, but probably more important, is the potential damage to the German group's management. The law suits pending between the companies threaten to turn Mr José Ignacio López de Arriortúa, VW's charismatic purchasing chief and the man at the centre of the row, into a lame duck. And if he was forced to resign, it would raise a question mark over the position of Mr Ferdinand Piëch, the chairman, who has given Mr López his unstinting support. Last but not least, the legal tussle is a good opportunity to take some profits on Europe's best-performing car stock over the past year.

T&N

T&N's deal to cap its asbestos liabilities transforms the UK engineering group. Shorn of its poisonous cocoon, T&N is more butterfly than moth and a plausible takeover target. It has a broad presence in pistons, bearings and engine components and a good balance between developed countries and emerging markets. In brake pads and linings it shares a duopoly with BBA and its double digit margins are the envy of the sector. Valuing the group at a conservative 10 per cent discount to rival LucasVarity points to a price of 200p. A bidder such as GKN, Tenneco or Bosch would have to pay at least 250p. That leaves the shares looking attractive, even after yesterday's jump to 176½p.

T&N's new look comes at a price, of course. After paying its reinsurers an £83m premium (net of tax) it will be balancing borrowings of £400m on a market capitalisation of £940m. Interest and dividend cover will look healthy going forward, since a £465m provision is being taken in 1996. But the cash cost of setting up a £323m fund for future asbestos claims will mean cash outflows of £40m-£50m in each of the next three years.

That is not a problem in itself, since disposals should be able to plug the gap. But it will leave T&N's ambitious management cash-strapped in a consolidating industry. The risk is that the group will revert to equity issues to fund acquisitions, as in the past. But at least cash constraints should force the management to be more open to bid approaches.

Additional Lex comment on Tate & Lyle, Page 22

FT WEATHER GUIDE

Europe today

Mild and moist air will bring rain to western Europe, but the central area will have mainly snow. The Benelux and the western half of France will have sunny spells.

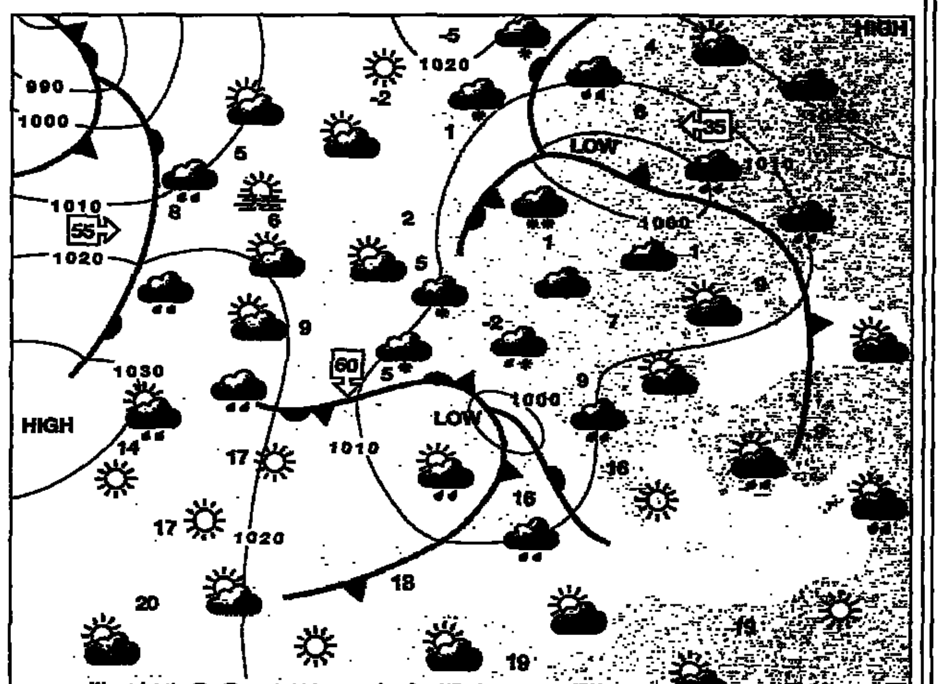
A low pressure system moving eastwards will bring rain to Italy and the Balkans. On higher ground, the rain will be mixed with snow.

A low south of Iceland will bring cloud and rain over Ireland this morning and rain later across the rest of the UK. On higher ground, the rain will be mixed with snow.

High pressure will bring sunshine to most of Spain but it will be showery in the north.

Five-day forecast

Rain mixed with snow will spread over the western part of the continent tomorrow. Much of the UK will have showers and sunny spells. Greece, the Balkans and eastern Europe will be rather wet. Conditions will remain unsettled during and after the weekend as low pressure continues to dominate.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum	Beijing	sun 4	Caracas	cloudy 30	Faro	fair 18	Madrid	sun 14	Rangoon	sun 32
	Celsius	Belfast	rain 6	Cardiff	fog 7	Frankfurt	cloudy 2	Majorca	sun 15	Reykjavik	rain 4
Abu Dhabi	sun 28	Belgrade	fair 7	Casablanca	fair 18	Geneva	rain 5	Malta	rain 18	Rio	fair 26
Accra	cloudy 32	Berlin	sleet 2	Chicago	fair 1	Gibraltar	fair 17	Manchester	cloudy 5	Rome	rain 16
Algiers	shower 18	Bermuda	fair 19	Cologne	sleet 2	Glasgow	cloudy 5	Manila	cloudy 32	S. Frsco	fair 16
Amsterdam	fair 5	Bogota	shower 20	Dakar	fair 34	Hamburg	cloudy 1	Melbourne	fair 20	Seoul	fair 4
Athens	sun 18	Bombay	sun 34	Dallas	cloudy 12	Helsinki	snow 1	Mexico City	fair 22	Singapore	shower 31
Atlanta	sun 13	Brussels	fair 3	Delhi	sun 26	Hong Kong	fair 27	Miami	fair 26	Stockholm	sleet 2
B. Aires	sun 30	Budapest	cloudy 2	Dubai	sun 28	Honolulu	fair 29	Milan	fair 4	Strasbourg	cloudy 3
B.ham	fair 4	C.hagen	rain 2	Dublin	rain 7	Istanbul	fair 14	Montreal	fair -4	Sydney	sun 27
Bangkok	fair 34	Cairo	sun 22	Dubrovnik	rain 11	Jakarta	shower 31	Moscow	cloudy 3	Tangier	cloudy 17
Barcelona	fair 17	Cape Town	fair 26	Edinburgh	fair 5	Jersey	fair 8	Munich	snow 1	Tel Aviv	fair 22
						Karachi	sun 30	Nairobi	shower 23	Tokyo	fair 15
						Kuwait	shower 23	Naples	rain 12	Toronto	snow -1
						L. Angeles	sun 24	Nassau	fair 27	Vancouver	rain 8
						Las Palmas	fair 22	New York	fair 3	Venice	rain 7
						Lima	fair 22	Nice	fair 19	Vienna	snow 1
						Lisbon	sun 16	Nicosia	shower 20	Warsaw	snow 1
						London	fair 6	Oslo	fair -2	Washington	fair 4
						Lux.bourg	cloudy 0	Paris	fair 4	Wellington	fair 17
						Lyon	shower 5	Perth	fair 23	Winnipeg	cloudy -4
						Madeira	cloudy 20	Prague	snow 0	Zurich	snow 1

FINANCIAL TIMES
COMPANIES & MARKETS
Thursday November 28 1996

IN BRIEF

Russia plans bullion market

Russia's central bank is determined that an active gold bullion market should develop in Moscow, Mr Aleksandr Potemkin, the deputy chairman of the bank, indicated yesterday. With this in mind, he hoped that very shortly the central bank would be able to buy and sell gold from the private commercial banks which only recently had won the right to buy gold from Russian producers. Page 26

Power transfer in S Africa mining
Next to the inauguration of President Nelson Mandela, this week's sale of mining house JCI is the most spectacular transfer of power in South Africa since it became a democracy in April 1994. Anglo American, the white-owned conglomerate, has sold its controlling stake to a consortium led by a former inmate of Robben Island, the notorious jail for political prisoners, producing South Africa's first black-controlled mining house. Page 17

Vendôme hit by fall in tourist spending
A fall in tourist spending in south-east Asia dented first-half profits at Vendôme Luxury Group, the Swiss-based holding company that owns brands such as Cartier, Dunhill and Montblanc. Pre-tax profits at the group declined 2 per cent to SFr214.7m ($166.4m) on sales 3 per cent ahead at SFr1.34bn. Page 22

VW shares plunge by 5.1%
Volkswagen fell DM32.50, or 5.1 per cent, to DM608 following a judgment in Detroit that US federal racketeering laws could be invoked in General Motors' civil suit against the Volkswagen purchasing manager and former GM employee, Mr José Ignacio Lopez de Arriortua, and others accused of fraud. Page 36

Staley undermines Tate & Lyle results
Tate & Lyle's results for the year to September 28 were overshadowed by a halving of profits at Staley, its North American corn syrup business. Group pre-tax profits fell from £311m ($519m) to £276m, although the previous figure involved £25.5m of exceptional costs. Page 22

Companies in this issue

Market Statistics http://www.FT.com

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Compt 2000	306	+	24
Escada	260	+	21.5
Kali Chemie	590.5	+	10.5
M. Waloig	492	+	18
Falls			
Altana	1208	–	20
Victoria Hldgs	1115	–	15
NEW YORK ($)			
Rises			
America Online	35¾	+	2¼
Fred Meyer	33½	+	1¾
Global Direct	43⅝	+	1¾
Falls			
Checkpoint	22¾	–	1⅝
Ensco	44⅛	–	2
Fleetwood	29⅝	–	1⅝
LONDON (Pence)			
Rises			
Brands Hatch	191½	+	12
Eurotunnel Uts	81	+	5½
Whitecroft	141	+	7½
Falls			
Brit. Gas	221	–	10
Merrydown	93½	–	5
Redland	364½	–	30
TORONTO (C$)			
Rises			
Bre-X Minerals	21.60	+	1.25
Global Strat	10.75	+	1.75
MDSI Mobile	21.50	+	1.45
Falls			
Brookfield	12.05	–	1.45
Cambra Foods	17.25	–	1.25
Veritas Engy	25.50	–	2.00

PARIS (FFr)			
Rises			
Ch. Dalloz	1862	+	52
Lambert Dur	930	+	60
SFIM	1070	+	41
Sodexho	2512	+	24
Falls			
La Fondiari	5610	–	270
STET	6360	–	170
TOKYO (Yen)			
Rises			
Honda Motor	3470	+	170
Nippon Ch Ind	1270	+	100
Falls			
Copal	840	–	60
Hanshin Sk	320	–	70
Inageya	1490	–	110
Miyakoshi	820	–	69
HONG KONG (HK$)			
Rises			
Cthay Pac	12.90	+	0.25
Hysan	30.10	+	0.10
Shaw Br	9.95	+	0.75
Wharf	40.60	+	0.90
Falls			
Hutch Whm.	59.50	–	0.50
S ChMP	7	–	0.25
BANGKOK (Baht)			
Rises			
Kulthorn Kerby	32.50	+	2.75
Loxley Publ	260.00	+	16.00
Pakpanang	25.00	+	2.00
Rockworth Pub	48.25	+	3.25
Falls			
BKK Dasit	33.25	–	2.75
Thoresen Thai	21.25	–	2.25

New York & Toronto prices at 12.30

Eurotunnel fire costs may top $380m

Passenger service through Channel tunnel rail link could start again next week

By Andrew Jack in Paris and Jimmy Burns in London

Eurotunnel yesterday estimated that the total costs of the fire which forced the closure of the Channel tunnel rail link between England and France 10 days ago could run to more than FFr2bn ($380m). It said full repairs were likely to take five months.

However, the company said it was covered by its insurance policies for all but the first FFr50m-FFr55m of the costs. Shares rose 9.3 per cent to FFr7.05 in France and 7.3 per cent to 81p in the UK.

Eurotunnel also predicted that, subject to approval by the safety authorities, a partial Eurostar passenger rail service was likely to resume as early as the start of next week.

This was criticised by Mr Mike Fordham, the assistant general secretary of the English Fire Brigades Union, who said re-opening passenger services next week would represent an "unacceptable risk" to the public. He called the additional safety measures a "PR exercise" likely to have little practical effect.

Mr Patrick Ponsolle, Eurotunnel's chairman, said at a press conference in Paris that last week's events showed that the company's safety system – which placed the top priority on the preservation of human life – had worked. None of the 34 individuals in the burning train was killed or seriously injured. "I have no doubt that the tunnel is at least as, and perhaps more, safe than all other forms of cross-Channel transport," he said.

He estimated that the costs of repairing the tunnel were likely to be FFr200m-FFr400m and that of the damaged train FFr50m-FFr100m. There could be a further "several dozens of millions" of francs for compensation for lorries and other material destroyed in the fire. In addition, he said there could be up to FFr200m a month in lost operating revenues for the next half year.

However, he stressed that Eurotunnel was covered by its insurance policies up to a ceiling of FFr4.5bn. This is more than twice the size of the likely total claim.

He added that the group had treasury reserves of more than FFr600m, which meant that there would be no cash crisis caused by initial costs and the loss of revenue as a result of the fire.

In addition, he said the unaffected northern rail tunnel and two-thirds of the southern tunnel could be rapidly brought back into use, bringing total capacity – and turnover – to two-thirds of previous levels well before the fire damage was entirely repaired.

Even without the remaining third of the southern tunnel in action, trains could operate at a frequency of six an hour in each direction, close to the average of seven an hour which were running before the fire took place.

Mr Georges-Christian Chazot, managing director, said additional safety measures would include stationing fire and ambulance trucks in the service tunnel that runs between the two rail tunnels and an empty Eurostar train at each terminal to help provide rapid evacuation in the event of future fires.

Mr Fordham expressed doubts about the measures. "If the fire engines are nowhere near the fire when it breaks out, their presence in the central service tunnel could actually delay rescue operations, not help them," he said.

Observer, Page 13

Swedish merger plan clouded by state decision

Skandia's proposed link with Stadshypotek hits difficulties

By Greg McIvor in Stockholm

A proposed merger between Skandia, Scandinavia's biggest insurer, and Stadshypotek, Sweden's leading mortgage bank, was further complicated yesterday when the Swedish government said it would proceed with a planned auction of its 34 per cent stake in Stadshypotek.

However, the government stressed it might still accept Skandia's 10-for-11 share offer if it proved the highest bid. Stockholm, which has accused Stadshypotek directors of acting against its interests, said it would welcome Skandia's participation in the auction.

A tie-up between Skandia and Stadshypotek would create the largest financial services group in the Nordic region, with total assets of SKr500bn ($75.6bn) and a market capitalisation of SKr45bn. But the deal ran into trouble soon after it was unveiled this week. Mr Erik Asbrink, Sweden's finance minister, accused Stadshypotek of ignoring the state's wish to auction its stake and said he had no confidence in its board.

Yesterday Mr Asbrink would not rule out an extraordinary general meeting of Stadshypotek shareholders. The Stadshypotek board countered by accusing the government of refusing repeated requests to discuss the merger plan.

Mr Hans Jacobson, the finance ministry director-general, said the government had requested preliminary bids for its stake, valued at about SKr8bn. "A handful" of institutions were interested, including Swedish and foreign interests, he said. The government is being advised by Merrill Lynch, the US investment bank.

International financial markets have questioned the logic of the Skandia-Stadshypotek merger because of a lack of operational overlap between the two. Skandia's shares closed SKr2.50 lower at SKr186.5 in Stockholm yesterday, a fall of 10.55 per cent since Monday. Stadtshypotek lost SKr1 to finish at SKr194.

The fall in Skandia's shares means its offer values Stadshypotek at around SKr170 a share, compared with SKr189.50 a share when the merger was announced. Mr Johan Trocmé, London-based Nordic equities analyst at Union Bank of Switzerland, suggested another bidder could trump Skandia's offer.

Pressure has been mounting for the restructuring of the Swedish banking sector as participants seek rationalisation gains to boost their growth in a sluggish market. The country's four top banks have been linked with Stadshypotek.

"I would have thought any Swedish bank would be able to extract bigger synergies from Stadshypotek than Skandia," Mr Trocmé said. Skandia shares, he added, would risk being downrated by analysts if the company increased its offer.

Skandia is keen to tap into Stadshypotek's surplus capital of SKr4bn–SKr5bn to finance expansion of its fast-growing unit-linked operations. But its prediction of SKr2bn in cost savings and cross-selling benefits by 2000 is seen as over-optimistic by many analysts.

Swedish finance minister Erik Asbrink: accused Stadshypotek of ignoring the state's wish to auction its stake Colin Beere

Westpac returns to Asia in link with UK bank

By Nikki Tait in Sydney

Westpac, the Australian commercial bank, is returning to Asia through a "strategic alliance" with Standard Chartered, the UK-based bank.

The alliance will cover a cash management, Asian currency lending, local transaction facilities and trade finance. Westpac will initially offer these services via Standard Chartered to its medium-size and large clients.

Westpac will be responsible for arranging the account and providing domestic access and support; Standard Chartered will provide the local account and transactions services.

A reciprocal arrangement will allow Standard Chartered customers to source Australian and New Zealand cash management services via Westpac.

Mr Bob Joss, Westpac's managing director, said the link was "of major importance to Westpac". He added: "It is a good strategic fit for our growth. It's what our customers want."

Rumours that Westpac was considering an alliance – a big policy shift – first surfaced a year ago. Only three years before that, bad debts and mounting losses led it to scale back its international operations.

Its banking and finance company assets in Indonesia, Thailand, Hong Kong, Taiwan and Malaysia were sold, and branches in Taiwan, South Korea and Indonesia closed.

The deal initially covers 160 Standard Chartered branches in Indonesia, Malaysia, Thailand, Hong Kong and Singapore, where the Australian bank says there is most demand and where regulatory approvals have been granted.

The intention is to extend the relationship to other parts of the Asian region. Westpac said that talks were under way with regulatory officials in Vietnam and China.

The Australian bank will continue to run its own corporate finance and personal banking services through its seven Asian offices.

The two banks stressed there would be no exchange of equity. Nevertheless, the link comes at a time when speculation over further consolidation in the Australian banking industry is rife – partly as a result of an inquiry instigated by the government into the financial services sector.

The inquiry, due to report early next year, is expected to consider what constraints, if any, should be placed on bids for the country's larger institutions. Standard Chartered has already been mentioned as a potential bidder should a more permissive regime emerge.

Yesterday, Westpac shares closed two cents higher at A$7.36. Shares in Standard Chartered rose 10½p to 686p.

Générale des Eaux chief seeks 15% return on equity

By David Owen in Paris

Générale des Eaux, the French utilities, construction and communications group, aims to lift its return on equity to 15 per cent by 1999, according to Mr Jean-Marie Messier, its president.

In a wide-ranging interview, Mr Messier, 39, also revealed that the group was bringing its accounting norms into line with international practice, in a move that could be a prelude to an eventual stock market quotation *outside* France.

He disclosed the company was bidding for "virtually all" of the UK's regional rail franchises. But it would "under no circumstances" seek more than 25 per cent of the UK rail market, against 17-18 per cent at present.

In five months at the head of France's largest private employer, Mr Messier has embarked on a complete restructuring of its building and public works operations and forged a strategic link with British Telecommunications.

Many further changes are in store. After FFr13bn ($2.5bn) of disposals in 1996, next year's aim is to cut the company's more than FFr50bn debt by "at least FFr10bn-FFr15bn". To this end, most of its many minority stakes are, in effect, for sale.

Mr Messier has also decided to quit catering and healthcare, though the group may retain a minority interest in Générale de Santé, Europe's biggest private hospital operator, for "a transitory period".

He said 1997 would be "the year of decision" on the company's French cable interests. These would only be developed if the group concluded that they offered the most cost-effective way of reaching consumers. The 20 per cent holding in Canal Plus, the French pay-TV group, was "strategic". "On a commercial level, the worlds of telecoms and images are going to get closer together."

A return on equity of 15 per cent in 1999 would be a considerable rebound from the losses of FFr3.7bn sustained in 1995 after provisions of FFr7.2bn against property activities.

The group recorded net attributable profits of more than FFr800m for the first half of this year, however, and Mr Messier has predicted that 1997 profits will be "at least FFr4bn" – comfortably above the group's previous best of FFr3.44bn achieved in 1994.

New ambitions, Page 18

Iberia plans to cut costs at Viasa

By Raymond Colitt in Caracas

Iberia, the Spanish airline, yesterday presented an emergency cost-cutting plan to shareholders of Viasa, in an effort to stem losses at the financially troubled Venezuelan airline.

Viasa has not made a profit since 1991 when Iberia acquired a 45 per cent stake in it.

The plan calls for a reduction in administrative, personnel and financial costs, as well as an overhaul of the company's international routes. Shareholders are to decide on the plan before January 15.

Mr Xavier de Irala, Iberia's chairman, during a stopover in Caracas lobbied Viasa's other principal shareholder, the state-owned Fondo de Inversiones de Venezuela (FIV) which has a 40 per cent stake, to assume its share in the cost of restructuring and financing the company's debt. Viasa says it has debts of $100m.

Iberia acquired its stake in Viasa for $73.5m and invested an additional $43.6m, largely to finance losses in 1991 and 1992. Iberia is now calling for a 15 per cent to 20 per cent cut in Viasa's 2,264 employees at a cost of about $18m, which it wants the FIV to assume. It also wants Viasa to shed unprofitable routes, and the FIV to pay additional restructuring costs of $4m.

Iberia offered to write off $21m of the $140m it claims to be owed by Viasa. In addition, Iberia is willing to cut interest payments from Viasa and provide aircraft maintenance worth a total of $5m. Iberia, which is cash-strapped and subject to a rescue plan co-financed by the European Union, is opposed to raising its stake in Viasa. But Iberia has not officially threatened to pull out of Viasa.

As a result of increasing its load factor, or the number of passengers it carries per aircraft, Viasa registered operational gains last year but still made net losses of Bs20bn ($69m at the 1995 year-end exchange rate). These came on top of a combined net loss of $60m for 1993 and 1994.

Doubts over sale of Olivetti's PC division

By John Simkins in Milan

Doubts arose yesterday over the ability of Olivetti to find a buyer for its personal computers division after Mr Roberto Colaninno, chief executive of the troubled Italian information technology company, said he was not certain that a deal could be concluded by the end of the year.

The disposal is central to Olivetti's plans to cut debt by selling assets worth L800bn ($528m) this year. Mr Colaninno told a hearing in the lower house of parliament: "We are working urgently with various interested parties in an attempt to conclude [a deal] this year but I am not certain it will be done. Talks with some are at an advanced stage while others are only at the beginning."

Mr Colaninno also warned against setting up a commission of inquiry into Olivetti. "If an inquiry committee was started, Olivetti would lose all its clients the next day," he said. The Senate, Italy's upper house, has already come out against such an investigation.

Mr Colaninno wants to ensure that a buyer would maintain the subsidiary at its present base near Olivetti's Ivrea headquarters, and aims to safeguard its 1,500 jobs. FIOM, the engineering union, which has been involved in tripartite talks with Olivetti and the ministry of industry, said: "We think there are serious problems in finding a buyer. The PC losses are well above budget and any prospective buyer would be very cautious." The PC division made a net loss in the first half of L15.8bn.

Mr Pierluigi Bersani, industry minister, told the hearing on Tuesday that Olivetti's management had not yet produced an industrial plan. Olivetti confirmed this yesterday but said it had outlined a strategy focusing on its systems and services arm, telecoms and the Lexicon office products business.

Also on Tuesday, Olivetti disbanded the executive committee set up at the height of its crisis in September, strengthening the powers of Mr Colaninno and the 17-strong board. It said the committee, which acted as an intermediary between management and the board, was no longer needed and its removal showed a return to normality.

Olivetti, which is required by Consob, the stock market authority, to release monthly debt figures, said its borrowing requirements had stabilised. Net debt at the end of October was L2,551bn, without the sale of an 8.3 per cent stake in the Omnitel mobile phones group, after sales of trade receivables of L425bn and deferred payments of L52bn. This gave total net financial requirements of L3,028bn against L3,016bn at the end of September.

US chain aids 54% advance at Ahold

By Gordon Cramb in Amsterdam

Ahold, the Dutch supermarket group, increased net profits 53.9 per cent in its latest period, the 12 weeks to October 6, to Fl 156.4m ($91.46m), helped by the inclusion of Stop & Shop, the US chain for which it paid $1.8bn.

Sales rose 33.7 per cent to Fl 9.3bn. Excluding the 192 outlets in the New England chain, the gain would have been 8.5 per cent. Operating income was ahead 45.8 per cent at Fl 307.6m.

In the US, where Ahold had a number of existing chains, revenues were up 97.1 per cent to $3.1bn, while operating profits more than doubled from $48.1m to $97.8m.

The group said Stop & Shop was "fully meeting expectations", while the contribution from its Edwards stores increased. Of Edwards' 105 outlets, 29 are to be sold because of US antitrust requirements, while a further 30 are being rebranded as Stop & Shop.

In its home market, the flagship Albert Heijn benefited from "a slight increase in gross margin, effective cost control and higher sales", enabling a small rise in market share. Operating earnings in the Netherlands emerged 7.5 per cent higher at Fl 110m on revenues up 4.3 per cent at Fl 3.4bn.

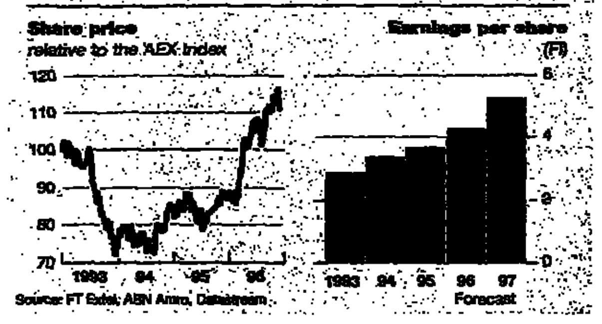
In the rest of Europe profits rose 29.7 per cent to Fl 40.2m on sales up 29.3 per cent to Fl 673.5m.

Ahold is expanding into Asia, where a Thai joint venture is due to be operational by the end of the year. It has begun a pilot project in Malaysia and is planning a Chinese venture in Shanghai.

PROFILE
Ahold
Market value: $7.8bn Main listing: Amsterdam

Historic P/E	28.65
Gross yield	1.39%
Earnings per share	Fl3.7
Current share price	Fl103.9


President: Cees van der Hoeven



Source: FT Extel; ABN Amro, Datastream

Nedlloyd results hurt by container overcapacity

By Charles Batchelor, Transport Correspondent

Nedlloyd, the Dutch shipping and road haulage group which is merging its container operations with those of P&O of the UK, yesterday reported a net profit of Fl 37m ($21.6m) in the third quarter, down from Fl 53m in the same period in 1995.

The company, like other container lines around the world, has been adversely affected by overcapacity and pressure on rates. Currency movements have also worked to its disadvantage. It has sought to improve its balance sheet by the sale of its drilling business and other assets.

When the impact of capital gains on the 1995 result is taken into account, the latest quarter showed an improvement of Fl 17m, the company said. Capital gains in the 1995 quarter were Fl 44m compared with Fl 2m this time.

Net profits before extraordinary items in the first nine months fell from Fl 101m to Fl 44m but after taking into account capital gains from the sale of Neddrill and other assets net profits rose from Fl 149m to Fl 318m.

Earnings per share fell from Fl 2.84 to Fl 1.63 in the third quarter, and during the first nine months from Fl 4.64 before extraordinary items to Fl 1.77. After extraordinaries, earnings per share in the quarter fell from Fl 2.35 to Fl 1.63, but rose from Fl 6.63 to Fl 13.81 in the nine months.

Downward pressure on rates is expected to continue in the fourth quarter, normally a weak period for the company, so it expects to make only a "modestly positive" net profit in the year as a whole. In 1995 its net profit before extraordinary items fell from Fl 91m the year before to Fl 49m.

Nedlloyd expects net extraordinary income of Fl 100m, comprising capital gains of Fl 300m, mainly from the sale of Neddrill set against a write-down of Fl 200m on vessels which will be allocated to the merged container business formed with P&O.

The balance will be reserved to cover Nedlloyd's share in provisions for the reorganisation of P&O Nedlloyd Container Line in 1997.

Operating profits in the container shipping division fell in the third quarter from Fl 32m to Fl 17m an improvement of Fl 27m after taking account of Fl 42m capital gains on asset sales in the 1995 quarter. Increased volumes, cost reductions and more favourable currency movements compensated for an Fl 80m drop in rates.

Group turnover rose slightly to Fl 1.72bn in the third quarter and from Fl 5.05bn to Fl 5.13bn in the first nine months.

Mr Hendrik Jan Boer, IRIS analyst, said the improved ocean shipping results were the main surprise in the earnings report and accounted largely for the higher-than expected bottom-line result.

Mr Corne Zandbergen, Bank Generale analyst, agreed Nedlloyd's ocean shipping business had done well.

GAN chairman is sacked after controversy over CIC

By Andrew Jack in Paris

The French government yesterday formally sacked the head of GAN, the troubled state-owned insurance group, in the latest twist to an embarrassing political feud over the group's management.

Mr Alain Lamassoure, budget minister and government spokesman, confirmed at the end of a cabinet meeting that Mr Jean-Jacques Bonnaud had been relieved of his functions.

Mr Didier Pfeiffer, managing director of UAP, the French insurance group privatised in 1994, was yesterday nominated to the board of GAN, in a move set to lead to his confirmation as the new chairman within the next few days.

The French cabinet's decision had been forced by Mr Bonnaud's announcement last week that he had refused to resign as chairman in spite of pressure from the government, arguing that to do so would have been to admit that he was in error.

Mr Bonnaud had been asked to leave by Mr Jean Arthuis, the economics and finance minister, who judged that the chairman of GAN had not been sufficiently supportive of efforts to privatise CIC, the retail banking network controlled by the insurer.

Others maintain that the sacking of Mr Bonnaud, who was widely respected within GAN, was revenge for the public controversy over an attempt earlier this year by Mr Alain Juppé, the prime minister, to nominate one of his top assistants to head CIC.

The effort to impose Mr Pierre-Mathieu Duhamel, who had no experience in the banking sector, as head of CIC, was abandoned after news of its strategy leaked to the French press in February.

The future of Mr Bernard Yoncourt, the chairman of CIC who was appointed instead, is now also in doubt, since he was supported by Mr Bonnaud and had also been subject to a recent public rebuke by Mr Arthuis.

EUROPEAN NEWS DIGEST

France to cut Bull stake to below 50%

The French government is to sell at least another 5 per cent of the capital of Bull, taking public-sector ownership of the troubled computer company to below 50 per cent.

The operation will take the form of a capital increase, with prospective investors given two weeks to make offers for blocks of at least 1.4m shares, equivalent to about 1 per cent of the group's capital. Offers can come from both new investors and the company's existing shareholders. Buyers of the new shares must agree not to resell them for a year.

Bull said yesterday it thought the state would dilute its direct holding in the company by about seven percentage points, to 30 per cent. This would make room for state-controlled France Télécom to lift its 17 per cent stake by one or two percentage points, while the overall state holding fell below the 50 per cent level.

France Télécom confirmed yesterday it intended to use the operation to lift its interest to between 18 and 19 per cent.

David Owen, Paris

Bank Leumi disposal

Bank Leumi, Israel's second-largest commercial bank, yesterday said it had sold for $190m its controlling stake in Africa-Israel, the property, insurance and tourism conglomerate, to Mr Lev Leviev, an Israeli businessman.

Mr Leviev bought 47 per cent of Africa-Israel's equity and 54 per cent of its voting rights. The deal values the company at $400m. Bank Leumi's stake in Africa-Israel will be reduced to 25 per cent. Recent banking reforms require Israel's biggest banks to divest significantly from their non-financial holdings.

The Israeli state holds an 85 per cent stake in Bank Leumi. Africa-Israel was sold without Leumi Insurance Holdings, its insurance subsidiary. The unit last year contributed Shk41m ($12.6m) to Africa-Israel's net profits, which last year totalled Shk110m. Africa-Israel recently approved spinning off the subsidiary, which controls Migdal, a leading Israeli insurance group. The move was part of a plan to sell Migdal to Generali, the Italian insurance group which already holds a stake.

Avi Machlis, Jerusalem

Eni greenshoe exercised

The Italian Treasury yesterday exercised the "greenshoe" option in the heavily over-subscribed share offering in Eni, the energy concern, issuing a further 165m shares. The total number of shares sold has therefore risen to 1.265bn, raising about L9,000bn ($6bn). This makes it the largest secondary offering in continental Europe.

John Simkins, Milan

Bawag offers Internet banking

Bank für Arbeit und Wirtschaft, the Austrian trade union bank, has become one of the first banks in Europe to offer an Internet banking service. Internet access will be grafted on to Bawag's existing online banking service, allowing customers to check their account statements and make domestic payments, and to transfer data into Microsoft's Money 97 financial planning software.

The new banking service was set up for Bawag by computer group Unisys. Booz-Allen Hamilton, the management consultants, estimate the cost of setting up a fully functioning Internet banking site at only $1m-$2m, with running costs only one-quarter to one-third those of a traditional banking operation.

George Graham, Banking Correspondent

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Anglo American comes good on its promise

JCI is S Africa's first mining house to come under black investors' control, writes Mark Ashurst

Next to the inauguration of President Nelson Mandela, this week's sale of mining house JCI is the most spectacular transfer of power in South Africa since it became a democracy in April 1994.

Anglo American, the white-owned conglomerate that dominates the local economy, has sold its controlling stake in JCI to a consortium led by a former inmate of Robben Island, the notorious jail for political prisoners. The deal gives birth to South Africa's first black-controlled mining house.

Anglo has sold 34.9 per cent of JCI to the African Mining Group, a consortium of at least eight black investors, for R2.8bn ($610m). The lead buyer is Capital Alliance, an insurance and financial services group whose chairman, Mr Mzi Khumalo, spent 12 years as a political prisoner on Robben Island until 1990.

The deal fulfils a promise made on the eve of the all-race election, when Anglo announced that it would sell its controlling stakes in Johnnic, a R10bn industrial holdings company, and JCI to black buyers to promote economic empowerment. But in contrast to Johnnic, which was sold in August to a broad-based consortium of black buyers at a discount of 7 per cent to the market, African Mining has acquired JCI at a premium. Its bid price of R54.50 a share is broadly in line with the JCI's net asset value and 10 per cent above the market price.

"We are convinced of the fundamental value of JCI, and we think it is currently undervalued both in terms of its assets and its potential," Mr Khumalo said in an interview with the FT.

It had been impossible to acquire JCI at a discount because of competition from a rival consortium led by New Africa Investments, South Africa's largest black company.

Mr Julian Ogilvie Thompson, Anglo chairman, said JCI had been sold to the highest bidder.

Their choice will disappoint Mr Cyril Ramaphosa, the secretary-general of the African National Congress and a former leader of the National Union of Mineworkers. Mr Ramaphosa quit politics to join New Africa in May and was widely tipped as the frontrunner in the race for JCI. New Africa was part of the consortium that bought Johnnic – and last month Mr Ramaphosa was elected chairman of the company whose portfolio includes an array of minority stakes in blue chip industrial stocks.

Mr Khumalo said members of the African Mining consortium had concentrated solely on acquiring JCI – unlike New Africa which he said had spread itself between the two bids. "We are very clear that we are moving into a controlling position," he said.

Both Johnnic and JCI were unbundled from Johannesburg Consolidated Investments in 1995, while the group's platinum interests found a new home in Anglo American Platinum. "We separated the other interests because we wanted to propagate the concept of the mining finance house," recalls Mr Michael Spicer, Anglo's public affairs director. However, that objective is far from guaranteed.

The traditional concept of a mining finance house – whereby mines are administered by a head office, which retains a minority shareholding and charges additional fees for management services – has become increasingly controversial. Some analysts and foreign investors have blamed the structure for the discount to net asset value in the share price of the biggest South African mining house. "We will look at an appropriate capital structure within a year or so. Our objective is to unlock as much value as possible and we are keeping an open mind," says Mr Khumalo.

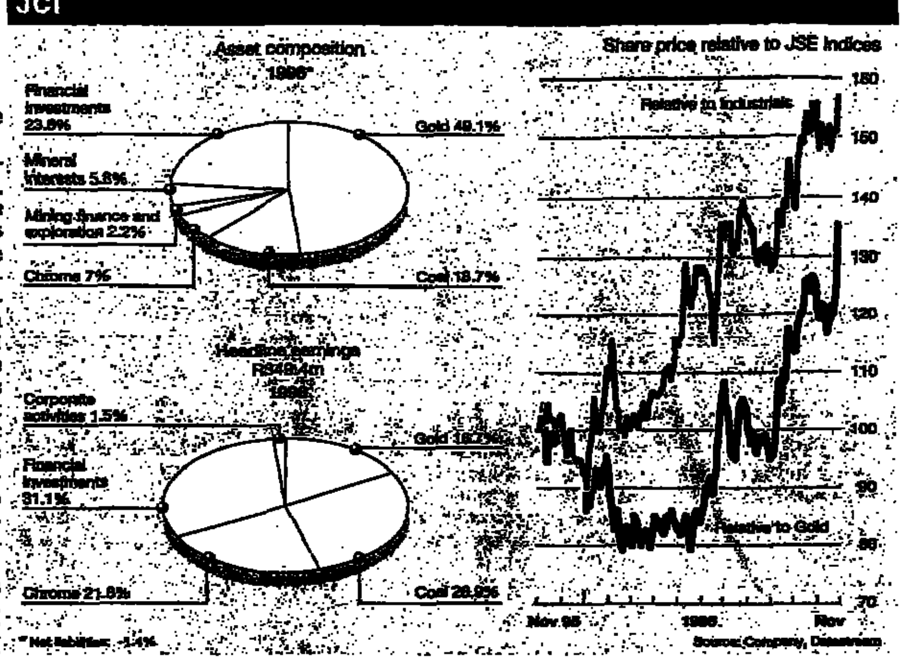
JCI's operating interests span gold, coal, chrome and minerals; the group also has an indirect stake in the Prestea gold mine in Ghana, and new gold prospects in Ethiopia, Mali and the Ivory Coast.

Mr Ogilvie Thompson said Anglo would retain 13 per cent in JCI, which may be diluted to about 7 per cent by a public offer. Details will be finalised by February 28, but the consortium is certain to include at least three unlisted, black-controlled holding companies: Thebe, Co-ordinated Network Investments and African Renaissance.

Mr Alexander Wilmot-Sitwell, director of corporate finance at SBC Warburg and adviser to the consortium, said no member would hold more than 20 per cent of JCI.

See Lex

JCI



Russian commercial bank announces plan to raise $1bn

By Chrystia Freeland in Moscow

Stolichny Savings Bank, a leading Russian commercial bank, yesterday announced plans to raise $1bn to finance its attempt to revive Agroprombank, the Soviet-era farmers' bank Stolichny acquired last week.

Mr Alexander Smolensky, president of Stolichny, said he hoped to raise the money from European commercial banks and western financial institutions, including the World Bank and the European Bank for Reconstruction and Development.

The ambitious plan was part of Stolichny's robust reaction to sharp criticism of the Agroprombank deal, in which the commercial bank won a controlling stake for Rbs130bn ($23.6m).

Stolichny also pledged to grant Agroprombank a five-year loan of Rbs1,000bn, although in past auctions investment obligations have often quietly gone unfulfilled.

The 50 per cent plus one share stake in Agroprombank was sold in a public tender formally open to all qualified Russian banks. But some Russian critics have said the deal is part of a pattern of privatisations with which the Kremlin has sought to reward its political backers.

Stolichny is one of the group of six banks and businesses which financed President Boris Yeltsin's successful re-election campaign. The group meets regularly and two of its members have been elevated to key positions in the government.

But Stolichny executives, speaking at a press conference with government officials, yesterday brushed off the attacks and presented their strategy for turning around the ailing Agroprombank.

Analysts said the acquisition of Agroprombank, whose 1,200 branches form the second-largest retail network in Russia, could help Stolichny to establish itself as Russia's leading private retail bank.

Mr Smolensky said that the controversy surrounding the deal had deterred him from immediately merging the two banks.

However, he said that they would operate in tandem, and on January 1 1997 Stolichny would take on a new name to reflect the partnership: SSB Agro (Stolichny Bank Sberezhenie Agro).

He said his priority would be personnel training and replacing the outdated equipment at Agroprombank with a computer network connecting all of its branches.

But Mr Smolensky promised not to make any significant changes in the formerly state-owned bank's management, and according to the terms of the sale at least 60 per cent of Agroprombank's portfolio must remain in agricultural lending.

Dexia expects strong results

By Andrew Jack in Paris

Dexia, the banking group formed by the merger of Crédit Local de France and Crédit Communal de Belgique, said yesterday it expected new loans during 1996 to amount to FFr100bn ($19.29bn).

Mr Pierre Richard, chairman, predicted strong results for the full year, up on the combined results of the two banks for 1995, and said their total activity stood at FFr61bn for the 10 months to the end of October, up 116 per cent on the same period last year.

He was speaking the day after the first board meeting of Dexia, which is formally operating following approval by shareholders of both banks for the new structure, and a quotation of shares of Crédit Communal de Belgique on the Belgian stock exchange.

Mr Richard said that he expected the group to pay a dividend in 1996 at least equivalent to last year's level, and called Dexia no longer a "Franco-Belgian" but a "European" institution.

He said that he was considering significant additional acquisitions.

Mr Richard also stressed his belief in the importance of greater decentralisation of power from the central government to local authorities, which are the principal clients of Dexia in France and elsewhere.

Mixed nine months for Israeli industry groups

By Judy Dempsey in Jerusalem

Koor and Clal, two of Israel's largest industrial holding groups, yesterday reported markedly different results, with Koor announcing a 9.4 per cent rise in net income for the first nine months of the year and Clal a 27 per cent fall.

The results reflect shifting management strategies as Koor, headed by Mr Benny Gaon, started a radical restructuring early last year aimed at hiving off part of its retailing side and building core businesses based on telecommunications and electronics, agrochemicals and construction.

Clal, whose chairman Mr David Wainshal recently announced he was to step down, is to embark on its own restructuring programme once Mr Yitzhak Kaul, chairman of Bezeq, the state-owned telecoms network, takes over next April.

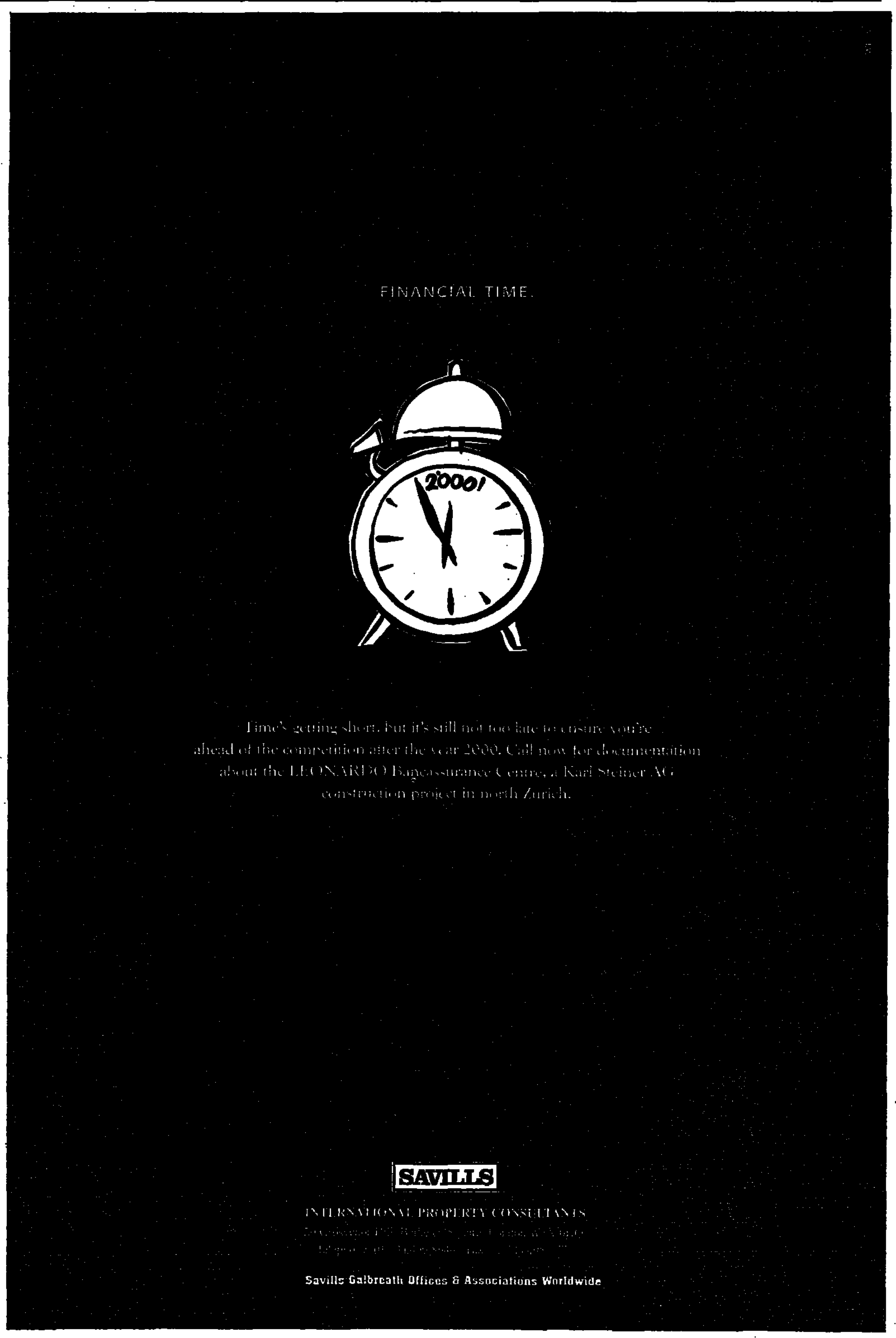
Koor's net profits were driven by a 17.5 per cent rise in exports for the third quarter compared with the previous year, despite the overvalued shekel and high interest rates. An interim dividend of Shk1.5 was paid.

Net income for the nine months rose from $141m to $154.3m on a 2 per cent increase in sales from $2.59bn to $2.65bn. Earnings per American Depositary Share slipped from 50 cents to 41 cents. During trading on the Tel Aviv Stock Exchange, Koor yesterday lost 0.5 per cent, closing at Shk280.92.

Analysts said the results were in line with expectations. Koor last year had net profits of $156m on sales of $3.8bn, with exports accounting for nearly one-third of sales.

Clal's net income over the nine months plunged from Shk150.6m to Shk110.4m ($34m) on a slight increase in sales from Shk3.8bn to Shk3.98bn. Profitability was hit by steep losses at its Scitex subsidiary, the maker of printing and video products. Scitex reported a net loss of $151m for the third quarter after a sharp fall in demand in the graphic arts market.

Last year, Clal had net profits of Shk184m on sales, excluding insurance income, of Shk4.8bn. Its shares rose from Shk72.74 to Shk73.65 in Tel Aviv yesterday.



THE RESHAPING OF GENERALE DES EAUX

Générale des Eaux's energetic new chief, Jean-Marie Messier, is transforming the French conglomerate. **David Owen** asks him whether activity means productivity

Pursuing new ambitions

He is among the youngest of French business leaders. And he is transforming one of the country's biggest and most traditional conglomerates with relish and speed.

Scarcely five months after being made president of Générale des Eaux, France's largest private employer, and two years after his arrival from Lazard Frères, Mr Jean-Marie Messier has:

● Halted the growth of the company's FFr54bn ($10.42bn) debt, which was supported by shareholders' funds of just FFr30bn at the end of last year.

● Identified environmental services and communications as the two main engines of future growth.

● Embarked on a root-and-branch restructuring of property, building and public works operations. This will involve a progressive reduction of the company's exposure to property risk. As with many French groups, property is the main source of Générale des Eaux's recent problems, and the principal reason for 1995 losses of FFr3.7bn.

● Forged a strategic alliance with British Telecommunications in pursuit of his ambition to turn the company into France Télécom's chief competitor in the FFr117bn French telecoms market.

● Stoked curiosity in the UK, principally by acquiring two train operating companies, which have given Générale des Eaux 18 per cent of the domestic rail services market.

● Taken the company out of the catering and private hospital businesses.

● Installed more collegial management systems and a new generation of managers who will shape the still lumbering group's development in the 21st century.

Given the sprawling nature of Générale des Eaux, such frenetic activity was badly needed; and one has only to look at the bewildering array of the company's holdings – it owns 27 per cent of the Parc Astérix theme park, for example, and is the largest car-park operator in France – to know there is still much to be put right. Moreover, Mr Messier must prove he can generate underlying profits growth.

In an interview in the group's Paris headquarters, the Générale des Eaux president explains that the majority of the holdings are, in effect, for sale. "The message is clear," he says. "Apart from *noyaux durs* [the web of cross-shareholdings many large French companies use to protect against hostile takeover] all our minority participations are earmarked to leave the group."

He believes the sheer number of businesses in which the group has peripheral holdings is an advantage, since it means he can pick and choose what to sell and when to sell it. About a year ago, he says, he was approached "in an insistent manner" to sell Générale des Eaux's 15 per cent stake in Blenheim, the UK-based exhibitions organiser, for £3 a share. "I refused ... At the end I sold this stake at the end of 1996 and not the end of 1995. And I sold it for £5 a share, not £3 a share."

All told, he says, he has made FFr13bn worth of disposals this year "without having left a single big area of activity". Next year's aim is to cut the company's debt – which was growing until this year at a rate of FFr6bn to FFr7bn a year – by "at least FFr10bn-FFr15bn."

He has predicted with characteristic boldness that 1997 profits will amount to "at least FFr4bn", well above the previous high of FFr3.4bn in 1994, and probably enough to generate a double-digit return on equity. In France, where shareholder value is a relatively novel concept, that would be the limit of most managers' ambitions. But Mr Messier aims to push this up to 15 per cent by 1999.

If this target is reached, it will be largely because of the performance of the four groups of businesses the Générale des Eaux president refers to as "environmental services" – water, energy, waste and transport. He expects these together to generate more than half of the group's turnover and cash flow in years to come. "Our ambition is to be the world leader in environmental services," he says.

He aims to branch out from the local authorities that the company has traditionally served in this area to attract new business customers. He says the group recently signed a deal with Renault under which it will "progressively" take over the handling of waste from the French carmaker's 40 European industrial sites.

International markets are becoming increasingly important for the company, despite Mr Messier's acknowledgement that in some areas, particularly Asia, it was slow off the mark. Strikingly, the group established its first permanent delegation in south-east Asia only in September, in Singapore.

This is one of a number of surprising gaps in the company's make-up that Mr Messier has moved to fill in the past two years. Another was the lack, until January 1995, of an executive committee. Such lacunae were symptomatic of the autocratic management style of Mr Guy Dejouany, Mr Messier's septuagenarian predecessor. This style was no longer appropriate for such a large company: as recently as 15 years ago, annual turnover was just one-eighth of today's FFr160bn.

Similarly, the group is only now bringing its accounting norms into line with international practice – a task so complex that Mr Messier thinks it could take two to three years. Once this is completed, a stock market quotation outside France is a strong possibility.

Mr Messier also wants rapid growth from the group's fast-developing communications business. From a just FFr6bn last year, he expects the unit to account for more than 15 per cent of Générale des Eaux's turnover and more than 25 per cent of cash flow within three to four years. The company already operates France's second-largest mobile telephone network; Mr Messier aims to make it France Télécom's biggest competitor across all segments after market liberalisation in 1998.

The group counts among its interests in this area a 20 per cent holding in Canal Plus, the French pay-TV company that recently announced plans to merge with the European interests of NetHold. "We think that on a commercial level, the worlds of telecoms and images are going to get closer and closer together", Mr Messier says. "Behind the capitalistic link, there is a real co-operative logic."

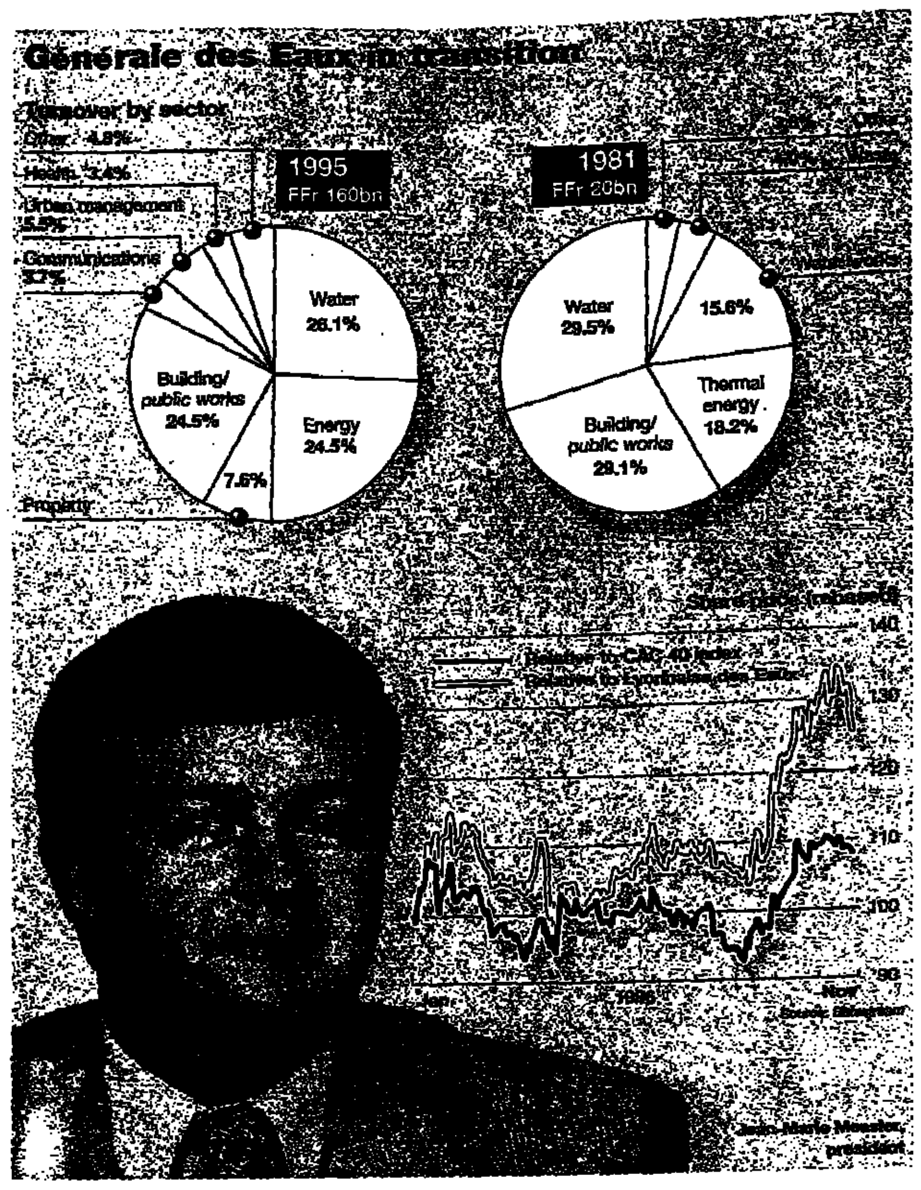
The group's French cable interests, however, will only be developed if cable offers the most cost-effective access to consumers. "What interests me", Mr Messier says, "is providing a value-added service. What technology we use to provide it does not really matter. I think one can say that ... 1997 will be the year of decision on cable."

One business definitely on offer is Générale de Santé, Europe's biggest private hospital operator, whose principal operations are in France and the UK. Mr Messier hopes to attract an acceptable offer for both halves of the business, although he admits the French and UK markets are very different. He says the group may retain a minority interest in the business for "a transitory period". Nevertheless, "we will no longer be a health service operator by the end of 1997".

The Générale des Eaux chairman agrees it is his company's good fortune that there is a strong tradition of private enterprise in the provision of water services in France, a country where state involvement is still so pervasive in many sectors. (The company was granted the water concession for Lyons, France's second-largest city, as long ago as 1853.)

This expertise, built up over many years, has put both Générale des Eaux and arch-rival Lyonnaise des Eaux in a strong position to compete for contracts in markets which are only now being opened up to private operators.

But although the group is well-placed in some respects, much more needs to be done. After last year's heavy losses, Mr Messier is predicting operating profits of FFr3.7bn and net profits of FFr1.8bn, the latter heavily affected by exceptionals. Next year, he says, net profits should be FFr4bn. But although he is targeting a 15 per cent return on equity, this year the rate, based on 1995 figures for shareholders' funds, would be just 6 per cent. Mr Messier must prove he has not mistaken activity for productivity.



Jean-Marie Messier: president

UK proves fertile ground for growth

The UK is the only country outside its domestic market where Compagnie Générale des Eaux operates in all its main sectors, writes Jane Martinson.

In just 10 years the French group has bought or set up 53 companies covering 11 industries in its cross-Channel neighbour. Through General Utilities, its UK subsidiary, it operates in such sectors as water supply, waste management, transport, telecoms, healthcare and construction.

GU contributed £1.5bn ($2.5bn) to group revenues last year and is expected to provide 10 per cent of the total in 1996, when it will confirm its position as CGE's largest international subsidiary.

Mr Jean-Claude Banon, GU managing director, says that acquisitions – which sparked CGE's UK business after the 1986 purchase of an energy management company – are less likely than ever before to be the company's main engine for growth.

"The mood at the moment is to trim financially," he says, "and then we can think again of making acquisitions."

Mr Banon, known as "JCB" by staff at the company's London headquarters in St James's, believes that there are strong growth opportunities in the UK, particularly in the areas of waste, environmental services and transport.

Through Connex Rail, its transport arm, the company has won two rail franchises in the south-east of England and is bidding for up to two more.

Last year, GU made a bid for Mid Kent Holdings, a water supply company in the south of England, in partnership with Saur, another French group. This deal, which is being investigated by the Monopolies and Mergers Commission, is part of the company's long-term approach, Mr Banon says. It is "not a growth initiative", but a way of solving a resources issue. The two French groups own neighbouring water companies which have suffered shortages in the past year.

This "long-term" attitude is behind the group's 40 per cent stake in General Cable, the telecoms company which has been subject to takeover speculation. Despite the industry's "changing landscape", Mr Banon believes GU will maintain its "strong commitment to cable".

GU's approach in the UK also depends on the experience to be gleaned from various privatisation programmes. "We believe that what this country is doing is exportable," Mr Banon says.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 28.11.96: Pool purchase price £/MWh	Final Prices for Trading on 31.10.96: Pool purchase price £/MWh	Pool selling price £/MWh
0030	11.72	12.91	13.57
0100	16.39	12.91	13.57
0130	16.39	12.91	13.57
0200	16.39	12.91	13.57
0230	16.39	12.91	13.57
0300	16.39	12.91	13.57
0330	16.38	12.91	13.57
0400	11.73	12.91	13.57
0430	11.70	11.67	11.67
0500	11.70	11.63	11.63
0530	12.47	11.63	11.63
0600	11.69	11.66	11.66
0630	11.73	11.68	11.68
0700	12.48	11.69	12.34
0730	17.59	17.55	18.22
0800	17.72	17.65	18.35
0830	21.19	17.92	18.72
0900	21.38	19.18	20.21
0930	21.47	27.49	28.71
1000	21.50	60.22	61.50
1030	21.40	60.06	61.29
1100	17.96	27.49	28.70
1130	17.96	27.60	28.84
1200	17.94	27.78	29.07
1230	17.86	27.45	28.62
1300	17.81	26.95	27.98
1330	17.75	18.02	18.85
1400	17.77	17.90	18.68
1430	17.77	17.84	18.60
1500	17.78	17.82	18.58
1530	18.00	17.81	18.56
1600	24.23	12.56	12.58
1630	81.43	21.47	21.47
1700	179.55	104.29	129.34
1730	232.36	179.97	215.01
1800	191.57	198.81	231.47
1830	85.43	134.63	158.75
1900	41.16	60.74	71.38
1930	27.58	33.96	38.28
2000	22.30	23.35	24.98
2030	19.44	20.90	21.76
2100	17.65	17.73	18.46
2130	17.55	17.57	18.23
2200	17.53	17.54	18.20
2230	17.53	25.88	26.54
2300	11.73	25.88	26.54
2330	11.69	17.54	18.19
2400	11.69	13.13	13.76

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.867 MWh becomes 1.6867p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6789 between 8:30am and 5:15pm Monday to Friday.
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Bell Atlantic lifts the cloud from Iusacell

The US group's Mexican buy demonstrates its commitment to investment in the country

The hidden political risks of investing in Mexico became evident this week when Bell Atlantic of the US announced it was spending $200m to take control of Iusacell, the struggling Mexican cellular telephone operator, and buy out a Mexican partner who had become a political liability for the company.

Bell Atlantic announced on Tuesday it was acquiring a controlling interest in Iusacell's voting stock from Mr Carlos Peralta and his family. The US company said it would exchange part of its non-voting shares for the Peralta family's voting shares at a premium of $50m.

It said the share-swap would not affect the aggregate ownership of the company, which would remain 48 per cent for the Peralta group and 42 per cent for Bell Atlantic.

In addition, Bell Atlantic said it would lend Iusacell $150m in subordinated debentures convertible into Iusacell voting shares.

The announcement was welcomed by the stock markets in Mexico City and New York, where Iusacell's American Depository Receipts (ADRs) rose $1.875 on Tuesday from Monday's close of $7.

"The takeover demonstrates Bell Atlantic's commitment to its Mexican investments," said Mr Patrick Jurczak, a telecommunications analyst with ING Barings in New York. "Eliminating Mr Peralta's control over Iusacell also removes the political cloud that was hanging over the company."

Mr Peralta's business grew rapidly during the administration of Mr Carlos Salinas, Mexico's president from 1988 until December 1994.

It was from the Salinas government that Mr Peralta obtained his concession to operate cellular telephony, thereby becoming the only competitor to Telmex, Mexico's privatised telecommunications monopoly.

In June 1994, six months after Mexico joined the North American Free Trade Agreement, Mr Peralta floated his telecommunications company on the New York Stock Exchange. The stock was priced at $31 per ADR, valuing Iusacell at $2.5bn; Bell Atlantic paid $1.04bn for a 41.9 per cent stake in Iusacell – an investment worth less than $350m today.

Like most publicly-traded companies, Iusacell's stock was hurt by the devaluation of the peso shortly after Mr Salinas left office, and by the deep recession that followed.

But what really hammered investor confidence was Mr Peralta's admission, in January this year, that he had lent $50m to Mr Raúl Salinas, the former president's elder brother, who was jailed on charges of murder and illicit enrichment three months after Mr Salinas's presidency came to an end.

Mr Peralta said he had been invited to join a venture capital fund which Mr Raúl Salinas, a civil servant with no known experience in the financial world, was setting up in Switzerland.

Mr Peralta said he pitched in with $50m because of his long-standing friendship with Mr Raúl Salinas. He denied the monies were a back-hander for the concession to run his cellular telephone business.

Mr Ernesto Zedillo's government, which jailed Mr Raúl Salinas, did not look kindly upon Mr Peralta's links to the former ruling family. Finance ministry officials subsequently revealed they were conducting tax audits on Mr Peralta's businesses – a treat generally reserved for the government's political enemies.

More damaging to Iusacell's business prospects, perhaps, has been the Transport and Communications Ministry's foot-dragging over the company's application for a licence to operate basic telephony services with fixed wireless technology.

Stock market analysts said they expected the licence would be forthcoming now that Mr Carlos Peralta was out of the way. "Mr Peralta's links to Mr Raúl Salinas affected the government's willingness to grant an operating licence for Iusacell's fixed wireless technology," Mr Jurczak said.

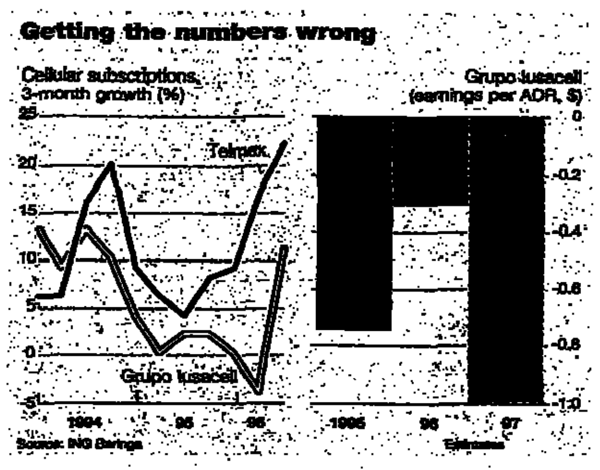
Mr Steve Fleischer, a spokesman for Bell Atlantic, said the US operator would start work in Mexico by seeking to recapture the market share Iusacell has lost to Telcel, Telmex's cellular telephone company, over the past two years.

"Over the past 12 months, Telcel has gained more than 152,000 subscribers; Iusacell about 1,100," says an ING Barings report. "Telcel now has a penetration rate almost double that of Iusacell – 0.6 versus 0.3 per 100 inhabitants." Iusacell has not made a profit since its flotation on the New York Stock Exchange and has thus not paid out any dividends.

Nevertheless, market analysts believe the company could carve a niche in Mexico's soon-to-be deregulated telecommunications market, particularly if it obtains a licence to operate fixed wireless telephony – a cost-effective option for Mexico's rural areas.

Leslie Crawford

Getting the numbers wrong



Carlos Peralta, whose links to the former ruling family were not looked upon kindly by Ernesto Zedillo's government

AMERICAS NEWS DIGEST

Cut in provisions lifts Scotiabank

Lower loan loss provisions and strong investment banking business helped Bank of Nova Scotia increase annual earnings by 22 per cent. The bank, Canada's fourth biggest and a recent favourite among investors, lifted its quarterly dividend by 3 cents, to 37 cents a share. The increase is the second in the past year.

Earnings rose to C$1.07bn (US$799m), or C$4.08 a share, in the year to October 31, from C$876m, or C$3.38, in 1995. Return on equity improved to 15.8 per cent from 14.2 per cent. Loan loss provisions dipped to C$380m from C$560m. Assets stood at C$157.3bn on October 31, 6.8 per cent higher than a year earlier.

The 1996 performance slightly exceeded analysts' expectations, and BNS shares were up 15 cents to C$46 at midday in Toronto yesterday.

BNS has the widest international operations among the Canadian banks. It has stakes in financial institutions in several emerging markets, including in Grupo Financiero Inverlat, a Mexican group. *Bernard Simon, Toronto*

Rating upgrade for CAF

Standard & Poor's has upgraded its credit rating of the Andean Development Corporation (CAF), the multilateral lending institution based in Caracas, Venezuela. The CAF said its short and long-term credit ratings were increased to A-2 and BBB-plus, respectively, based on the institution's solid financial results in 1996.

Among other factors, S&P judged favourably "the economic performance of the member countries during this last year", CAF said. The member countries of CAF are Venezuela, Colombia, Ecuador, Peru and Bolivia. *Raymond Colitt, Caracas*

Bombardier climbs 22%

Bombardier, the Canadian aerospace and transit equipment group which owns Shorts of Belfast, posted net profit of C$91.8m (US$68.5m), or 27 cents a share, up 22.5 per cent from C$74.9m, or 22 cents, a year earlier. Revenues were C$2bn, up 23 per cent from C$1.6bn.

Nine-month earnings were C$258.9m, or 75 cents a share, up from C$207.9m, or 61 cents, on revenues of C$5.5bn against C$4.4bn. *Robert Gibbens, Montreal*

Electric bus venture

Canada's Western Star Trucks and US aerospace group Lockheed Martin will jointly make hybrid electric buses for North American cities. Lockheed will supply the drive systems for the low-floor buses, to be made by Western Star at its Ontario and US plants from late-1997. The vehicles use an engine-generator set and batteries for energy. *Robert Gibbens*

Spain firm on airline

Spain has no plans to sell its stake in Aerolíneas Argentinas, the country's industry and energy minister said yesterday. Spain will "continue to be involved in the operation, the management and the personality of the company", Mr Josep Pique told the Clarin newspaper in Buenos Aires.

Spanish state-owned airline Iberia Líneas Aereas de España holds a 20 per cent stake in Aerolíneas, while the government itself owns about 45 per cent through its 100 per cent ownership of Iberia and through a holding company. *Reuter, Buenos Aires*

COMPANIES AND FINANCE: ASIA-PACIFIC

Investors cool on Japan's profits recovery

By William Dawkins in Tokyo

Corporate Japan ended its first-half reporting season this week finding it had done better than expected, but not well enough to entice investors back to the stock market.

Aggregate recurring profits – before tax and extraordinary items – rose 15.7 per cent in six months to September on the same period last year, just over five percentage points more than companies forecast. A 92.5 per cent profits recovery is expected for the full year.

This outlook is, however, distorted by a boost to banks' profits from their decision to write off fewer bad loans this year than in the second half of last. This led them to report record full-year losses in 1995.

Excluding financial items, manufacturing companies' half-year profits rose only 14.7 per cent with just over a quarter in the same period last year. For the full year, manufacturers expect profits growth to slow even more, to 8.1 per cent.

Investors responded with limited enthusiasm. The Nikkei 225 index closed yesterday at 21,345, only 3.3 per cent above its level when the reporting season opened.

Manufacturers' modest profits outlook was further underlined yesterday, when the Bank of Japan published its latest quarterly survey of business conditions. It showed that a 3 per cent balance of producers thought the economy was weak, though conditions were less gloomy than in the last survey in August.

"There is very clear evidence that the momentum of profits recovery is waning," says Mr Neil Rogers, equity strategist at UBS Tokyo Research.

There are, however, encouraging signs. First, manufacturers are reaping the benefits of cost cuts they made during Japan's four years of economic stagnation. Recurring profit margins have picked up from a low of 1.6 per cent of sales in the second quarter of 1994 to 2.7 per cent.

The top 10 banks' profit margins dwindled in intense competition for new lending business, cutting their core business profits 36 per cent.

All but one of them, however, Dai-ichi Kangyo Bank, reported a small improvement in their capital to risk assets ratio, a sign that the biggest of their bad debt write-offs are behind them.

A second reason for optimism is the performance of big exporters. The 10 per cent decline of the yen against the dollar over the year to September has allowed them to reap currency exchange profits. Some of them also showed they had become more competitive under the rigours of the earlier period of yen strength, allowing them to lift margins or cut prices more aggressively.

For example, Toyota, Japan's largest car company, nearly quadrupled first-half profits despite a fall in domestic sales and Honda profits rose by the same amount. Carmakers more oriented to the domestic market did less well. Mazda made an operating loss, and Mitsubishi Motors registered a double-digit profit decline.

Among electronic companies, the export successes include Sony, which doubled profits, and Matsushita, where profits more than tripled.

Some sectors, however, were disadvantaged by the falling yen. Airlines, oil distributors and power companies, dependent on imported oil denominated in dollars, reported sharp profit declines. Some of the big exporters' earnings were constrained by a weak currency, which has eroded the profitability of products manufactured abroad for import to Japan. The Japanese finance ministry responded by signalling that it thinks the yen's decline has gone far enough.

This view does not appear to be shared by the markets. Yesterday's Tankan survey sent the dollar above Y113 for the first time in three weeks, on the assumption that the Bank of Japan will keep interest rates low until conditions improve.

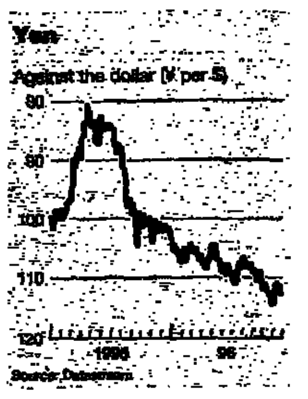
The prospect of foreign exchange losses on Japanese equities and a downbeat earnings outlook suggest foreign investors will not rush back to the Tokyo market, and domestic investors also remain cautious, dampening hopes of a long-awaited Tokyo equity price rally.

Some surprises pop up at the half-year stage

Profits by sector, Yen bn

	First half 1995	First half 1996	% change	Improvement on 1996 estimate %
Basic(1)	[illegible]	[illegible]	[illegible]	[illegible]
Processing	1,787,582	2,292,722	16.9	9.7
Utilities	[illegible]	[illegible]	[illegible]	[illegible]
Other non-manufacturing(2)	842,397	854,629	-6.1	6.9
Transportation	[illegible]	[illegible]	[illegible]	[illegible]
Financials	1,100,703	1,365,017	21.1	2.4

(1) Includes mining, pulp and paper, chemicals, fishing and forestry
(2) Includes construction, property, retail and services
Source: BZW Japan Securities and companies



Barney's backs Dickson move

By John Ridding in Hong Kong

Dickson Concepts, the Hong Kong luxury retailer, has received backing from Barney's and its creditors to perform due diligence work which could lead to an acquisition or refinancing of the New York-based department store.

Mr Raymond Lee, Dickson Concept's executive director, said that Barney's had agreed to support the company's request for reimbursement of due diligence costs.

He added, however, that his company was not obliged to make any investment in Barney's and stressed that the Hong Kong group was still weighing its position.

Speculation over an offer for the New York retailer, which entered bankruptcy proceedings at the start of this year, has grown recently, after reports that Dickson Concepts and Saks Holdings have been considering bids.

Dickson, however, has remained guarded about its position, proceeding with other steps, such as the listing of its S. T. Dupont subsidiary.

Mr Lee said that the completion of due diligence would probably take about six weeks after approval from the bankruptcy courts. A decision from the courts is expected within the next few days.

Analysts in Hong Kong said that Dickson Concepts appeared serious about a move for Barney's but was proceeding cautiously.

"They obviously aren't going to rush in," said one. "Barney's would be a big and difficult bite."

For Dickson Concepts, the acquisition of Barney's would give it a significant foothold in the US. The Hong Kong group already has operations in Asia and Europe, including a controlling stake in Harvey Nichols, the upmarket UK department store which it floated this year.

Core activities drive growth at Siam Cement

By Ted Bardacke in Bangkok

Siam Cement, Thailand's largest industrial conglomerate, reported surprisingly strong third-quarter earnings yesterday, as healthy growth in core cement and pulp and paper sales offset poor performance in steel and petrochemical operations.

Consolidated third-quarter net profit rose 14 per cent to Bt1.5bn ($58m), while nine-month consolidated net profits were 12 per cent higher year-on-year at Bt5.83bn.

Analysts said the company was continuing to build foreign currency debt, even swapping some existing baht loans into dollar or yen loans, in an attempt to lower interest charges on the financing needed for expansion. Annual capital expenditure this year and next is likely to average Bt26bn, and net gearing is nearing 350 per cent, according to Baring Securities.

The company also announced it would set up a $120m plant to produce methyl methacrylate, a raw material for synthetic glass, in a joint venture with Mitsubishi Rayon of Japan. Each company will hold 45 per cent of the venture, with private investors taking the rest.

Cement sales account for about one-third of the company's revenues and analysts said these had risen by about 15 per cent in the third quarter. Sales during the same period last year were hampered by transport snags and lower demand because of Thailand's worst flooding in decades.

Siam Cement was also able to export much of its excess cement capacity, and also benefited from the worldwide downturn in pulp prices, lowering its raw material costs for paper products.

However, low world prices are still hurting Siam Cement's steel and petrochemicals subsidiaries, analysts said.

The automotive parts business, however, appeared to shrug off a slowdown in Thailand's automotive sector. This business, which now accounts for about 10 per cent of total revenues, continued to show the important growth that began earlier this year.

Foreign designated shares of Siam Cement were the most actively traded yesterday, closing up Bt24 at Bt904.

● Saha-Union, one of Thailand's leading textile and industrial manufacturing conglomerates, said yesterday third-quarter net profits fell 54 per cent year-on-year to Bt73.2m, reflecting the growing difficulties in the country's garment sector. Nine-month profits fell 25 per cent to Bt387m.

Novelty stock shows solid prospects

Philippine electronics group SGI is developing its exports side

As the only consumer electronics company to be listed on the Philippine stock exchange, Solid Group (SGI) has cornered the market for novelty value. Likewise, as one of only two manufacturing stocks on the exchange, SGI's listing has sparked curiosity among fund managers accustomed to a bland diet of local property and banking stocks.

But the company, which launched a 3bn peso (US$114.2m) initial public offering two months ago, is also taken seriously as a possible "emerging blue chip" by local analysts. With a 24 per cent share of the domestic television market and almost 50 per cent of Philippine audio and video sales, SGI is considered well-placed to benefit from its unique position on the local market.

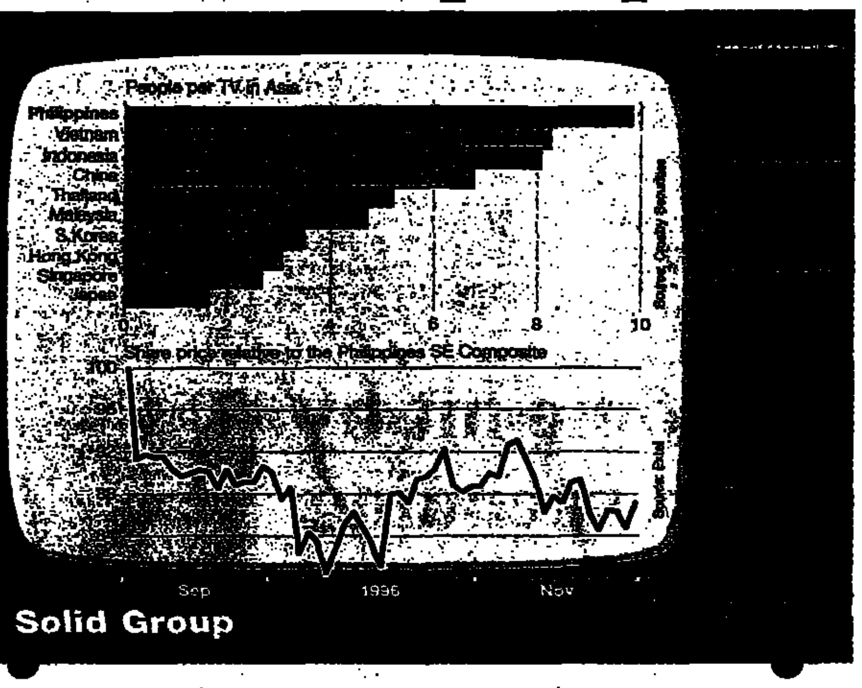
Under licence from Sony and Aiwa, the Japanese electronics groups, SGI has lifted production to more than 1m television sets a year, with almost 30 per cent exported to other Asian markets.

The group, which posted earnings growth of 280 per cent in the first nine months, to net profits of 525m pesos, is expected to continue to outperform its domestic competitors – mostly South Korean and other Japanese investors – in the consumer electronics market. In addition, as the sole Philippine exporter of consumer electronics goods, Solid is in a good position to exploit economies of scale in its domestic operations.

Yet the company, which is majority-owned by the Chinese-Filipino Lim family, has heavily underperformed the market since its well-subscribed listing in September. Offered at 6.50 pesos each, the shares quickly fell to 5 pesos before recovering to 5.50 pesos. Bearish sentiment about the sustainability of the Philippine property boom and growth in banking stocks has held back the market. But specific worries over SGI's novelty value also played a part in its disappointing share performance.

"A lot of investors are waiting to see whether Solid's impressive growth can be maintained over the next 12 months," said Mr Jo Jo Gonzalez, analyst at Jardine Flemings in Manila. "The company is seen as a very good prospect but there is still a sense of caution before buying into a Philippine manufacturing stock."

Among other worries, there is justifiable concern over Solid's heavy exposure to exchange rate fluctuations, with more than 70 per cent of the group's components imported from Japan and elsewhere. Crosby Securities, the US stock broker, estimates that for every 5 per cent appreciation of the peso against the US dollar, Solid's profit margins would be squeezed by 25 per cent.



Rumours, also, about the security of Solid's long-standing franchise arrangement with Sony (and Sony's subsidiary, Aiwa) have also surfaced. In both cases the licence is renewable on a one-year contract. Speculation that Sony, like much of the Japanese manufacturing sector, will bypass its franchisees and shift to direct production in its south-east Asian markets has alarmed local investors.

"We have a 35-year relationship with Sony, so we feel pretty comfortable with the situation," said Mr Vincent Lim, chief financial officer at Solid. "But we are very keen to reduce the foreign exchange risk by shifting our sourcing to the domestic market. We plan to reduce the import content from 70 per cent to 40 per cent within three years, and hopefully to zero by early next century."

The Lim family's decision to launch an IPO earlier this year was partly motivated by the need for capital to invest in in-house components manufacturing. The group, which aims to boost the share of exports from 30 per cent to more than 50 per cent of total sales by 1998, is investing 1.2bn pesos in upgrading its domestic content production.

With the government planning to slash tariffs on imported consumer goods, from 30 per cent in 1996 to 5 per cent by early next century, Solid is working to a tight schedule.

Edward Luce

ACC fall adds to India gloom

By Tony Tassell in Bombay

A much worse than expected fall in profits at Associated Cement Companies, the leading Indian cement producer, has deepened a sense of gloom over the interim reporting season for corporate India.

Net profit of the company, a flagship of the Tata Industrial Group, dropped more than half in the six months to September 30, from Rs1.25bn to Rs550.5m ($15.4m). This was sharply below market expectations of Rs900m-Rs1bn, and even these forecasts had been scaled back from around Rs1.6bn earlier in the year.

Analysts said the results were the biggest shock in a generally poor reporting season for Indian companies, with disappointing results showing slowing earnings growth.

Shares in ACC fell 12 per cent to Rs1,018. The slide in ACC triggered a heavy fall on the rest of the market, particularly in other cement stocks.

Analysts blamed the deeper than expected fall in profits on a squeeze in margins following a sharp increase in costs during a time of flat volume growth.

They said price rises for ACC had been restricted by mounting oversupply in the Indian cement industry against slackening demand.

Telkom up 28% after nine months

By Manuela Saragosa in Jakarta

Telkom, the Indonesian state-controlled domestic telecommunications carrier, has posted a 28.1 per cent rise in net income for the first nine months. It attributed the improvement to continued growth in the number of its lines in service, and in call volumes on its fixed-line network.

Net income was Rp1,130bn ($481.9m) compared with Rp878.4bn in the first nine months of 1995. Operating income rose 15.8 per cent to Rp1,554bn. The number of lines per 100 inhabitants rose from 1.5 to 1.9.

Interest earned on proceeds from Telkom's initial public offering also helped the bottom line, pushing down expenses net of other income to Rp14bn from Rp84bn.

Telkom increased the number of new lines in service by 32 per cent, or 628,000, bringing the total to 3.92m. That figure includes 2.13m lines in regions controlled by Telkom and 1.79m in areas controlled by private consortia.

Earlier this year, Telkom accepted a one-time downward adjustment of the guaranteed minimum annual revenues, or MTRs, it receives from consortia installing and operating new lines in the regions. They agreed to pay Telkom an annual MTR of Rp1,395bn, 4.4 per cent less than the Rp1,459bn flagged in Telkom's prospectus.

Operating revenues from those regions managed by Telkom totalled Rp1,998bn, while the five regions managed by private consortia contributed Rp1,086bn.

Correction Notice

U.S. $100,000,000

Floating Rate Subordinated Loan Participation Certificates Due 2000

Issue by

Merrill Lynch Capital Markets Bank Limited

(formerly Merrill Lynch Bank AG and incorporated in the Federal Republic of Germany with limited liability)

for the purpose of funding and maintaining a subordinated loan to

The Asahi Bank, Ltd.

(incorporated in Japan with limited liability and resulting from the merger of The Saitama Bank, Ltd. and The Kyowa Bank, Ltd. with effect from April 1, 1991)

Notice is hereby given that for the Interest Period from September 30, 1996 to December 30, 1996 the Certificates will carry an Interest Rate of 5.97578% per annum. The amount of interest payable on December 30, 1996 will be U.S. $151.05 per U.S. $10,000 principal amount of Certificates.

By: The Chase Manhattan Bank
London, Agent Bank

CHASE

November 28, 1996

LEGAL NOTICES

IN PARLIAMENT

SESSION 1996-97

GIROBANK plc (TRANSFER)

NOTICE IS HEREBY GIVEN that application is being made to Parliament in the present Session by Girobank plc for an Act under the above name or short title for the purposes of which the following is a concise summary:-

To provide for the vesting in Alliance and Leicester plc ("A&L") of the undertakings of Girobank plc ("Girobank") and Alliance & Leicester Personal Finance Limited ("ALPF"); for such vesting to take place on a date or dates to be determined by the directors of A&L in relation to all property and liabilities of, or held by, Girobank and ALPF; the validation of references in deeds and other instruments; staff employment and pension rights; the saving of contracts, statutory provisions and other documents, powers, authorities, negotiable instruments, bailment, securities and proceedings and the provisions of the Bankers' Books Evidence Act 1879; the continuance of accounts and of interests in land; and to make further provision supplementary to or consequential upon the purposes aforesaid, including the application of the intended Act to Scotland and Northern Ireland.

On and after 4th December 1996 a copy of the Bill for the intended Act may be inspected and copies obtained at the price of £1 each at the head office of Girobank plc at 49 Park Lane, London; at the Alliance & Leicester Building Society, Scottish Administration Centre, Broughton Street, Edinburgh; at the Alliance & Leicester Building Society, Regional Office, 63 Royal Avenue, Belfast; and at the offices of the undermentioned Parliamentary Agents.

Objection to the Bill may be made by depositing a Petition against it. If the Bill originates in the House of Commons the latest date for depositing such a Petition in the Private Bill Office of that House will be 30th January 1997; if it originates in the House of Lords the latest date for depositing such a Petition in the office of the Clerk of the Parliaments in that House will be 6th February 1997. Further information may be obtained from the Private Bill Office of the House of Commons, the office of the Clerk of the Parliaments, House of Lords, or the undermentioned Parliamentary Agents.

Dated 28th November 1996

JULIAN HEPPLEWHITE,
Girobank plc,
49 Park Lane,
London W1Y 4EQ.
Company Secretary.

SHERWOOD & CO.,
35 Great Peter Street,
Westminster,
London SW1P 3LR.
Parliamentary Agents.

Staley setback hits Tate & Lyle

By Maggie Urry

Tate & Lyle's results for the year to September 28 were overshadowed by a halving of profits at Staley, its North American corn syrup business.

Group pre-tax profits fell from £311m to £276m ($461m), though the previous figure was struck after £25.5m of exceptional costs.

Overcapacity in the high fructose corn syrup industry in North America prevented Tate and its rivals from passing on higher raw material prices when annual contracts were negotiated at the start of 1996. This severely reduced margins.

Mr Larry Pillard, newly-appointed chief executive of Tate, said US corn prices had fallen sharply recently but that earnings in the new financial year would depend on negotiations with customers, likely to begin in December or January.

Sir Neil Shaw, chairman, said it had been a "challenging year" for Tate, but the performance demonstrated the "resilience of the group in the face of a major commodity shock". The stock market had expected the profit fall, and the shares rose 9p to 479p yesterday.

Tate's north American sugar business improved profits, mitigating the fall at Staley, to give regional operating profits of £116m (£171m).

Elsewhere sugar and sweeteners profits were ahead. European operating profits increased to £153m (£144m), while those from the "rest of the world" rose from £25.1m to £31.5m. Animal feeds and bulk storage rose to £36.8m (£35.4m), entirely due to acquisitions. Losses from other activities fell to £3.4m (£10.7m).

Mr Simon Gifford, finance director, said investment in developing markets was beginning to pay off. Tate has spent £151m since 1990 in new markets, with no return until a £4m profit in 1995. It was £17m in 1996. Mr Pillard said those markets offered "tremendous opportunities for growth".

Easdaq goes live with Dr Solomon's

By Katharine Campbell

Easdaq, the pan-European stock market for high-growth companies, went live yesterday when Dr Solomon's Group, the UK developer of software to combat viruses, emerged as the first company to test the bourse.

Dr Solomon's, which also has a listing on Nasdaq, the established North American market, has raised $97m, giving the company a market capitalisation of $310m, and bringing in $68m of new money.

The ADRs were priced at $17, at the top of the $15-$17 range set by lead manager Goldman Sachs.

Dr Solomon's will be joined today by Innogenetics, a Belgian company specialising in innovative diagnostics and selective therapeutics. Its shares will be priced at $12, producing a market capitalisation of $246m. Unlike, Dr Solomon's, it is not listed on Nasdaq.

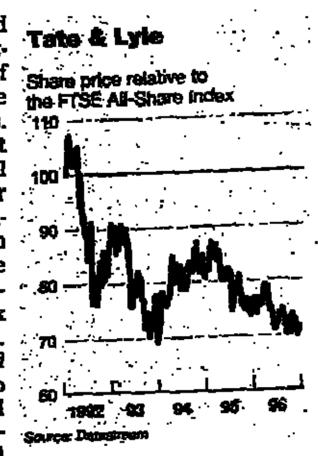
Two more technology companies, Artwork Systems of Belgium and ActivCard of France, are expected to list by the middle of December.

Yesterday 18,000 Dr Solomon's ADRs changed hands on Easdaq, which currently has 10 market-makers; 1m ADRs had traded on Nasdaq, where Dr Solomon's had listed on Tuesday, broadly typical for a first day's trading in that market. The closing quote on Easdaq was at the issue price, as it had been on Nasdaq the previous day. Mr Jacques Putzeys, Easdaq's chief executive, said: "Now that quotations have actually started, we expect the number of applications to accelerate."

Concerns about liquidity in the early stages of the screen-based system's development were underscored by Goldman's decision to opt for a dual listing for Dr Solomon's. After the float, Dr Solomon's management still owns 20 per cent of the company.

LEX COMMENT

Tate & Lyle



Tate & Lyle, the sugar and starch group, is doing little to dispel its image of being an unpredictable commodity-style business. Last year's 17 per cent drop in pre-exceptional earnings caps a six-year period during which compound earnings growth has been a highly volatile 1 per cent. At least, dividend growth has been six percentage points higher. But interest and dividend cover are getting tight, so another bad year would mean a cut in either dividend growth or capital expenditure. The challenge for Mr Larry Pillard, the new chief executive, is to improve both the quality and quantity of profits, and it will be tough. Staley, the cause of the 1996 profits decline, will have a better year, as maize prices fall and the price of ethanol rises. But it remains vulnerable to the negotiating round with the soft drinks giants over high fructose corn syrup prices. Mr Pillard needs to focus on investing in a reduction in Tate's cost base, and accelerating a push into higher value-added products such as polydextrose, as a means of reducing the impact of the corn syrup price fight.

At least he should reap the benefits of Tate's past capital spending spree. Returns from the £170m invested in emerging markets since 1990 are finally rising towards respectable levels. And Tate's new French starch plant will be operational next year. First quarter earnings will remain weak, but 1997 looks set for a healthy turnround in profits and share price alike.

Flemings discloses 16% rise

By John Gapper, Banking Editor

Robert Fleming, the investment banking group, yesterday tried to leave behind problems at Jardine Fleming, its Hong Kong joint venture with Jardine Matheson, by disclosing a 16 per cent rise in pre-tax profits from £79.4m to £92.2m ($154m) in the six months to September 30.

The investment bank, which was fined £700,000 in September by the City regulator Imro for its failure to control trading by Mr Colin Armstrong, a Jardine Fleming fund manager, reported strong growth in fund management profits.

Mr John Manser, chief executive, said flat Asian markets and "heightened competitive pressures" elsewhere could limit growth in the second half, but gains from expansion in the past five years were emerging.

Flemings, which has used its strong presence in investment management as a base for a broader expansion into securities and investment banking, employs 7,300 people in 69 offices. Staff numbers have doubled over five years.

Mr Manser said the growth had "cost us a lot of money, but I am not ashamed of that". Flemings could not "run a business on the basis that we are perfectly placed for a bear market", although costs had to be kept under control.

Vendôme hit by fall in spending

By Christopher Price

A fall in tourist spending in south-east Asia dented first half profits at Vendôme Luxury Group, the Swiss-based holding company that owns brands such as Cartier, Dunhill and Montblanc.

Pre-tax profits at the group, which is 70 per cent-owned by Richemont, declined 2 per cent to SFr214.7m on sales 3 per cent ahead at SFr1.34bn.

In sterling terms, this represented a 5 per cent fall in pre-tax profits to £113m ($189m) for the six months to September 30. Operating profits were flat at SFr209m.

South-east Asia accounts for about 40 per cent of revenues and the expenditure downturn in the region was mainly caused by a sharp fall in the value of the yen against the dollar.

This had reduced the spending capacity of Japanese tourists, who feature among the company's biggest customers. Profits were also held back by higher operating expenditure, including launch costs for a new range of Cartier watches.

Lord Douro, deputy chairman, said he expected improved profit and turnover in the second half.

Brendan Corr

Optimistic: Lord Douro (left) with Joseph Kanoui, chairman

RESULTS

	Period	Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Amber Industrial	6 mths to Sept 30	11.9	(12.8)	1.3	(1.88)	4.4	(6.7)	1.75	Jan 14	1.75	-	5.75
British Biotech	6 mths to Oct 31	0.782	(3.69)	16.1L	(11L)	2.6L†	(2.3L)	-	-	-	-	-
Clarisle	6 mths to Sept 30	9.83	(8.4)	0.256	(0.033)	0.7	(0.14)	-	-	-	-	-
Crabtree	Yr to Sept 30	48.5	(32.8)	2.59	(4.88)	9.8†	(21.6)	5.25	Aug 8	5.25	9	9
Feber Prest	Yr to Sept 30	65.7	(98.9)	3.55♠	(8.19)	13.88	(42.06)	11	Jan 17	11	17	17
Falcon	6 mths to Sept 30	3.17	(3.52)	0.171	(0.382♥)	6.3	(13.9)	3.5	Jan 22	2.5	-	6
GW Resources $	Yr to Sept 30	25.8	(19.1)	1.68‡♠	(77.7L‡♠)	0.01	(0.62L)	nil	-	nil	nil	nil
Kewill Systems	6 mths to Sept 30	19.8	(18.6)	3.24	(2.61)	17.5	(14.6)	3.6	Mar 3	3	-	8
Meyer Intl	6 mths to Sept 30	599.4	(638.4)	20.3	(20.1)	10.6	(10.3)	4.2	Feb 3	4.2	-	11.5
Mid Kent	6 mths to Sept 30	20.4	(19.5)	4.89♠	(5.34♥)	19.7	(23.7)	12	Jan 14	6.25	-	24
Northamber	6 mths to Oct 31	132.2	(95.7)	3.14	(2.04)	14.6	(8.2)	1.2#	Feb 12	0.6	-	2.2
Oriental Rest	6 mths to Sept 30	3.26	(1.88)	0.531	(0.318♠)	5.6	(4.1)	1	Jan 13	-	-	-
Tate & Lyle	Yr to Sept 28	5,160	(4,452)	276.3	(311.1♠)	40.5	(49.7)	11.7	Feb 4	11	17	16
Trace Computers	Yr to May 31	20.5	(19.7)	5.14♠	(0.483)	35.88L	(2.53)	nil	-	1	nil	1.55
Vendôme Luxury §§	6 mths to Sept 30	1,337	(1,294)	214.7	(219.2)	0.227	(0.234)	3.62	Jan 31	3.61	-	10.24
Vibroplant	6 mths to Sept 30	17.8	(34.8)	0.491L	(3.68)	0.71L	(5.1)	1.4	Jan 9	1.4	-	4.05

Investment Trusts	Period	NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Brit Smaller VCT	6 mths to Sept 30	94.2	(-)	0.043	(-)	0.93	(-)	0.85	Dec 20	-	-	-
Fleming Cont'l Euro	6 mths to Sept 30	422.5	(367)	3.52	(3.1)	5.39	(4.74)	-	-	-	-	4
HGC Private Equity	6 mths to Sept 30	94.1	(92.6)	0.197	(0.051)	0.79	(0.2)	-	-	-	-	0.5
New London Capital	6 mths to Sept 30	91.5	(90.1)	1.13	(1.07)	1.89	(1.78)	1	Feb 24	1	-	3
Wigmore Property	Yr to Sept 30 ★	89.9	(78.5)	0.32	(0.179)	1.58	(0.88)	0.9	Jan 29	0.55	1.2	0.8

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. $US currency. ‡Net income. #Prior to 1-for-1 scrip issue. §§Swiss currency throughout except dividends which are expressed in pence. §USM stock. ★Comparatives restated.

ITG signs deal with Microsoft

Shares in Internet Technology Group gained 6p to 49½p yesterday after it completed a deal with Microsoft, the US software group, designed to make signing up for Internet access easier.

Under the agreement, Global Internet, ITG's fast-growing Internet service provider, will supply Microsoft's Internet browser software to all its subscribers.

PC users with Windows 95 and the latest version of Internet Explorer will be able to click on an Internet access icon which will enable them to set up an Internet account on-line in minutes.

Global, which pioneered its own automated electronic registration system, will become one of the first UK-based Internet service providers to use Microsoft's new registration service.

Several other leading UK-based service providers including Demon Internet, UUNet Pipex and BT Internet, have also joined up with Microsoft which has been attempting to boost its share of the browser market in competition with Netscape Communications.

Mr Laurence Blackall, ITG chief executive and one of Global's founders, said: "Joining Microsoft's initiative will help remove complexity from the Internet and open it up to many more users."

CONTRACTS & TENDERS

Hrvatska Elektroprivreda d.d.
Ulica grada Vukovara 37
10000 Zagreb
CROATIA

Invitation for Bids

Hrvatska Elektroprivreda d.d.-HEP (The Croatian Electric Utility) intends to install two 350 MW coal-fired units in BOOT approach and invites Bids for

THE CONSULTING SERVICES

Bids in accordance with Bid Invitation Document (BID) should be submitted to the following address by December 15, 1996. For further information including receiving the BID, please contact:

Hrvatska Elektroprivreda d.d.
Direkcija za proizvodnju
STE - Project Management 2x350 MW
Misevecka 15 A
10000 Zagreb
Croatia
Mr. Zeljko Varazdinec
-phone:+385 1 61 31 681
-fax: +385 1 61 31 984

COMPANIES AND FINANCE: UK

Redland shares drop as European sales fall

By Andrew Taylor, Construction Correspondent

Shares in Redland, Europe's biggest roof-tile producer, fell sharply yesterday after the company warned that sales had been lower than expected in many continental markets.

The warning, made at an extraordinary meeting to approve the company's reorganisation, raised concerns about prospects for the German housing market, which until recently had been showing signs of improving.

Redland's share price slipped 30p to 364½p following the statement by Mr Rudolph Agnew, its chairman. Shares in RMC, the British concrete and aggregates producer with large German interests, fell by 22p to 971½p.

Mr Agnew told shareholders that sales volumes in continental Europe had been "slightly below expectations" in the fourth quarter of this year. There also had been slower than expected improvement in margins in Germany, partly because of higher than predicted start-up costs for new roofing products.

Mr Paul Hewitt, finance director, said Germany's latest seasonally adjusted housing permit figures "had been slightly disappointing".

Analysts yesterday cut full-year pre-tax profits forecasts from about £280m to £260m, and for next year from £330m to £295m.

Fourth quarter continental European sales of building materials, excluding Germany's, are understood to be running 2 per cent to 3 per cent lower in volume terms than Redland had expected. Aggregate sales in France had been particularly poor.

Shareholders approved the sale of its western European roofing tile operations to Braas, its majority-owned German subsidiary. Redland will receive £220m cash and lift its stake in Braas from 50.76 to 56.5 per cent.

Mr Howard Seymour, construction analyst at BZW, said: "The rationalisation of the tiles business under Braas is a good move, but unfortunately continental European construction markets appear to be running against the group."

British Biotech set to launch first product

Brendan Corr

Keith McCullagh with Pam Kirby, director of international operations

By Daniel Green

British Biotech, the UK's biggest biotechnology company, is set to launch its first product, a treatment for acute pancreatic disease, in 1998 following successful final trials results.

The company also revealed that it has abandoned its former great hope, the cancer drug batimastat and another cancer drug in development, BB-2983, whose trials results were poor.

Phase III trials of the acute pancreatitis drug lexipafant showed it reduced the death rate provided it was administered within 48 hours.

An application to sell the drug – to be known as Zacutex – will be made to the European Medicines Evaluation Agency by the end of March 1997. EMEA usually takes less than a year to reach a decision.

Mr Keith McCullagh, chief executive, said pricing for the drug had not been finalised, but Mr James Noble, finance director, said he was "comfortable" with the $300m a year sales peaks forecast by analysts.

The trials results were released with the company's second quarter figures, to October 31, which showed research and development spending up from £6.6m to £9m ($15m) as the company increased spending on clinical trials. Higher R&D spending increased losses to £8.06m (£4.03m).

Takeover threat enters asbestos-free zone

Tim Burt finds T&N's chief nonplussed by its new-found attractiveness

Sir Colin Hope, the veteran chairman of T&N, could not stop smiling yesterday.

After more than a decade at the helm of the automotive components and engineering group, he claimed the end was in sight for T&N's legacy as one of the world's largest asbestos producers. "I believe that for all practical purposes we are now asbestos-free," he said.

Sir Colin was speaking after unveiling a widely trailed insurance scheme to cap the group's asbestosis liabilities, which have cost the company more than £350m in compensation payments over the past decade.

Under the insurance deal, the group expects to wipe out its annual £50m asbestosis charge by setting aside a once-and-for-all £373m provision against future liabilities, while using £500m of insurance cover to meet any claims above a threshold of £690m.

In the short term, the costs will be high. Including the £92m one-off premium to pay for the insurance cover, T&N will have to take £465m of provisions against this year's figures. That could leave the group facing pre-tax losses of more than £300m.

But according to Sir Colin, it is a price worth paying. He admits the scheme will blow a large hole in the 1996 accounts and push gearing into the stratosphere. But from next year, he says, the company will be a "clean engineer". Profits earned from products such as pistons, friction products and engine rings will no longer be undermined by asbestos charges.

Under his stewardship, T&N has become one of the world's leading suppliers of such components through a series of bolt-on acquisitions, including UK car parts group AE, JPI of the US and the German piston rings manufacturer Goetze.

Sustained investment in new technology and tight financial management has given the group some of the highest margins in the sector, up to 16 per cent in some product areas.

In spite of some signs of softening demand, Mr David Harding – the finance director credited with masterminding yesterday's insurance deal – has helped maintain those margins by greatly improving working capital controls.

That record has won over industry analysts. "They have made good progress, particularly on the drive for cash and by clearing out non-core businesses," according to Mr Sandy Morris at ABN Amro Hoare Govett.

Mr Robert Speed, at Henderson Crosthwaite, added: "T&N has been a world leading business clouded by asbestos. Now it looks as though that cloud is gone."

By successfully removing the asbestos handicap, however, the management may have saddled itself with another difficulty – the prospect of a hostile takeover.

The underlying business at T&N looks cheap, even after yesterday's share price rise, giving a market value of about £930m and an adjusted forward multiple of about 13. This looks undemanding for an international components business with more than £2bn of annual sales and double digit margins.

Some analysts believe that T&N's shares could return to the heady heights of about 200p. It is understood the T&N board would not consider an offer below about 250p – valuing the group at £1.34bn. Any bidder would also have to assume roughly £400m of debt.

Although that would be a large bite for almost all of T&N's UK competitors, several are thought to have run the rule over the company, as have some North American and European rivals.

But Sir Colin is unruffled. Having laid the asbestos ghost to rest, he believes he can continue developing the group's position in its chosen engineering products and remains confident of seeing off any unwelcome approaches. "The best defence against a takeover is a well managed company."

T&N escapes maze of liability

By George Graham

T&N yesterday followed in the footsteps of Lloyd's of London and Cigna of the US by reinsuring much of its liability for asbestosis claims.

Where Lloyd's and Cigna, themselves insurers, set up separate reinsurance companies to run off their asbestos and environmental liability claims, T&N took £500m ($835m) of cover with three of the world's leading reinsurers: Centre Re, part of the Zurich group, Munich Re and Swiss Re.

The arrangement resembles a normal insurance policy with a very large excess to be paid by the policyholder. T&N will itself bear claims up to a total of £690m, the pessimistic estimate of likely liabilities produced by its actuaries. It will set aside £323m in advance, which covers £550m of claims spread over time – the central estimate produced by the actuaries.

The three reinsurers will then cover the next £500m of claims in exchange for a premium of £92m, though T&N remains exposed if claims run beyond £1.19bn. T&N will share in the profits if no claim is made. Such policies usually return about 80 per cent of the premium.

But structuring a policy to cover liabilities that will certainly arise, even if they cannot be precisely quantified, has been no easy task. "I think our view would be that it couldn't have been done a year ago," said Mr Mike Hammond of Sedgwick Group, the insurance broker that put the deal together.

INTERNATIONAL CAPITAL MARKETS

US Treasuries lose most of early gains

GOVERNMENT BONDS

By Richard Tomkins in New York and Richard Adams in London

US Treasuries had a choppy morning's trading in New York yesterday, but settled little changed after fresh economic data supported the view that the US economy was continuing to experience moderate growth and stable inflation.

At midday, the 30-year long bond was ¼ up at 100$\frac{15}{32}$ to yield 6.422 per cent, while at the short end, the two-year note was unchanged at 99$\frac{27}{32}$, yielding 5.642 per cent. The market prepared for an early close ahead of today's Thanksgiving holiday.

Bond prices were higher initially but shed some of their gains after the release of data showing durable goods orders for October were stronger than expected. Orders rose by 0.1 per cent instead of falling 2 per cent, as the market had expected.

The Purchasing Management Association of Chicago's November index of business activity also showed an uptick, from 56.9 to 57.6.

However, the first revision to third-quarter gross domestic product trimmed the figure from 2.2 per cent in the advance report to 2 per cent, representing a sharp downturn from the 4.7 per cent level of the second quarter. The figure for inventory investment was cut from $39.6bn to $32.8bn.

Gilt prices continued to fall in the aftermath of Tuesday's UK budget, following increased expectations in the City of interest rate rises to come. The long gilt future contract for December fell ⅝ from the start of the Budget speech, to settle at 110$\frac{18}{32}$, while the March contract opened at 110$\frac{7}{32}$ and fell ½ by the close.

A poll by Reuters news agency of 35 London economists showed a consensus expecting base rates, now at 6.0 per cent, to end 1997 at 7.0 per cent. At least 0.25 percentage points of that increase is expected to come within six months. That view was supported by the fall in the March contract for sterling interest rate futures, down 0.06 to 93.28.

In the cash market, 10-year benchmark gilts fell $\frac{9}{32}$, as traders said lack of supply held up cash prices against the futures market. Meanwhile, the Bank of England announced that its December 4 auction would be for £2.5bn of 7.0 per cent gilts due 2002.

Also in London, Japanese government bond (JGB) futures maintained their strong showing from trading in Tokyo. On Liffe, the December JGB contract settled at 126.04, up 0.68 from its Tuesday high.

The continuing upwards move in JGB prices followed the publication of the Bank of Japan's quarterly *tankan* survey of business expectations, which showed the economy continuing to improve slowly.

The *tankan's* main business condition diffusion index for large manufacturers – the percentage of companies seeing better conditions less the percentage seeing worsening conditions – rose to minus three in November from minus seven in August. The Bank said companies expect the main index to improve to minus one by the next tankan in February.

Mr Neil Williams, chief economist at Sumitomo Finance International in London, said he thought the *tankan's* message was overly pessimistic and masked the underlying strength of the economy.

"Japan is on the up-leg of its business cycle, but it is still behind the pack," Mr Williams said. The rally in JGBs since August has been driven by domestic support, but those who missed out on the rally have switched to holding US Treasuries and cash.

Sumitomo expects Japanese interest rates not to move until the summer of next year. Mr Williams said the best indicator of rate moves could be seen in the yields on two-year paper, which yesterday fell from 0.67 to 0.61.

In the late 1980s, rises in the two-year yield anticipated by 18 months the series of five rises in the ODR, while falling yields pre-empted rate cuts by six months. Mr Williams said he expected to see the yield spread between two-year and 10-year JGBs fall from 200 basis points to 120 points by the middle of 1997.

Sumitomo expects a cycle of rising interest rises among G3 economies, starting with the US in the spring, followed by Japan, and by Germany by December 1997.

In the cash market, the No 182 10-year benchmark JGB closed at 103.87, to yield 2.47 per cent. The stable price followed a better than expected 10-year auction on Tuesday, when the 2.8 per cent sale produced the lowest price at 100.30.

German bund futures on Liffe broke through a contract high to go to 101.56 during the day's trading. But flaccid Treasuries prices brought the contract back to 101.37, which was unchanged from the previous day's close.

The Bundesbank yesterday accepted bids for its Series 120 five-year Bobl bonds, having stopped selling the series as a tap issue to non-bank investors. The issue will carry a 5.0 per cent coupon, maturing in 2001.

Denmark follows sterling deal with DM500m offer

INTERNATIONAL BONDS

By Conner Middelmann and Samer Iskandar

Only two days after tapping the sterling sector, Denmark came to the eurobond market yesterday with a DM500m offering of five-year bonds.

The issue was targeted at retail accounts in Switzerland and the Benelux countries, but also saw some demand from Asian investors, according to an official at lead HSBC Trinkaus.

He added that with DM15bn in bond redemptions over the next three months and heavy interest payments in January, there was likely to be a large pool of money seeking reinvestment, at which this deal was partly aimed.

The bonds were priced at a yield spread of 22 basis points over German government notes, which most other dealers deemed too tight. Indeed, it widened to 25 points in the course of the session.

Samsung Electronics is expected to tap the D-Mark sector today with DM300m of five-year bonds via Deutsche Morgan Grenfell.

Hard on the heels of its $1bn three-year offering on Tuesday, the World Bank returned with a $900m issue of one-year unlisted bonds, aimed, like the previous deal, at Japanese retail buyers. The bonds were launched to coincide with the year-end bonuses paid by Japanese companies to their staff.

The latest deal's 4.7 per cent coupon compares very favourably with domestic one-year deposit rates, which currently stand at around ½ per cent, a syndicate official at lead manager Nikko Europe said.

The lira sector was active again, seeing a L300bn issue of five-year bonds for Crédit Local de France, aimed largely at continental European retail investors, and a L200bn increase of a Dresdner Finance 10-year bond to L500bn.

● More than 12 years after its first issue, the French region of Nord-Pas de Calais yesterday returned to the market, launching FFr500m of nine-year domestic bonds.

In spite of being one of France's poorest regions, the borrower obtained Triple-A ratings from the international credit rating agencies Moody's and Standard & Poor's, allowing it to place the bonds at a yield spread of 22 basis points over OATs.

"The decision to issue bonds was based purely on pricing considerations," said Caisse des Dépôts et Consignations, the lead manager. "Although intense competition between banks has driven the cost of bank loans to very attractive levels, local authorities are aware that this situation will not last forever. This deal creates a new source of funds for when market conditions change."

The proceeds will finance the region's extensive expenditure programme, a large proportion of which will be spent on the modernisation of state schools.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
World Bank♦	900	4.70	99.969	Dec 1997	0.50	-	Nikko Europe
Banco Itau♦	100	7.00	100.00	Dec 1997	0.15	-	UBS
D-MARKS							
Kingdom of Denmark	500	4.75	99.55R	Jan 2002	0.25R	+22(5%Aug01)	HSBC Trinkaus
SBC, Jersey Branch(a)	100	6.25	99.86R	Dec 2006	0.40R	+50(6¼Apr06)	SBC Warburg
ITALIAN LIRE							
Crédit Local de France	300bn	6.75	101.375	Jan 2002	1.875	-	BNP/San Paolo, Turin
Dresdner Finance(b)	200bn	7.375	101.50	Dec 2006	2.00	-	BCI/BNL
PESETAS							
European Investment Bank	10bn	6.125	101.14	Jan 2002	1.625	-	Banco Central Hispano
NEW ZEALAND DOLLARS							
European Investment Bank	100	7.00	101.63	Jan 2002	2.00	-	Toronto-Dominion Bank

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. R: fixed re-offer price; fees shown at re-offer level. a) DM400m launched Tuesday increased to DM500m. b) L300bn launched last week increased to L500bn.

CAPITAL MARKETS NEWS DIGEST

Solidere issues $77m of GDRs

Solidere, the Lebanese real estate company rebuilding Beirut's commercial district, yesterday raised $77m in an issue of global depositary receipts, according to Merrill Lynch, the lead manager. The GDRs, which trade in lieu of underlying shares, offer foreign investors an exposure to a company whose bylaws restrict direct stock ownership to Lebanese and Arab nationals. Each GDR, which will trade on the London stock exchange, represents an interest in one-tenth of a Solidere share traded on the Beirut stock exchange.

Solidere is Lebanon's largest company, with a capital base of nearly $2bn, including $650m raised in a domestic initial public offering in 1994 and the rest in property. Mr Rafiq Hariri, Lebanon's prime minister, is the company's single largest shareholder.

The 6.7m of GDRs sold, however, was less than the initial target of 10m cited in the prospectus, and the deal was priced at the bottom of the indicated pricing range of $11.50–$12.50. Bankers involved in the transaction cited difficulties in marketing a Lebanese company when the country does not figure in the emerging markets index of the International Finance Corporation. Demand in the Middle East and among retail private banking clients also fell below expectations and buyers were mostly US and European institutional investors. The deal was delayed for a month after the pre-marketing stage, and not all interest shown in the pre-marketing later materialised, according to bankers.

The performance of Solidere shares on the local market has suffered because property rights holders, who are often starved for cash, are still being issued with shares but then sell them. The GDR issue marked the company's attempt to bolster the price by attracting international institutions with long-term investment horizons. Solidere shares on the Beirut exchange yesterday reached a low of $113, before closing at $114.25, down from $114.75 the previous day.

Roula Khalaf, London

France drops Russian claims

The French government is renouncing its own rights to compensation from Russia regarding outstanding historic debts, as part of a treaty signed between the two countries on Tuesday. Mr Jean Arthuis, the French economics and finance minister, told the National Assembly the state would waive its rights in order to increase the amount of money available to compensate individuals holding pre-revolution Russian bonds.

Mr Victor Chernomyrdin, the Russian prime minister, signed an agreement with Mr Alain Juppé, his French counterpart, to pay a little more than FFr2bn to the estimated 400,000 holders of some 4m outstanding Tsarist bonds issued between 1830 and 1913.

All payment on the bonds was cancelled by Lenin after the Bolshevik revolution of 1917, and there had been growing pressure in the past few years by French bondholders for reimbursement after Russian voters renounced communism.

Andrew Jack, Paris

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		6.750	11/06	97.2490	-0.210	7.14	7.10	7.85
Austria		5.875	07/06	99.8800	+0.010	5.89	5.95	5.98
Belgium		7.000	05/06	107.4200	-0.090	5.84	6.01	6.12
Canada *		7.000	12/06	106.7000	-0.180	6.10	6.18	6.39
Denmark		8.000	03/06	108.5000	-0.040	6.73	6.81	6.91
France	BTAN	5.500	10/01	102.9759	+0.090	4.81	4.84	5.02
	OAT	6.500	10/06	105.3100	+0.110	5.78	5.84	6.00
Germany Bund		6.250	04/06	103.2200	-	5.79	5.84	6.04
Ireland		8.000	08/06	109.3500	-0.100	6.66	6.77	6.98
Italy		9.500	02/06	112.4300	-0.820	7.591	7.62	8.29
Japan	No 140	6.600	06/01	121.8676	+0.880	1.48	1.63	1.89
	No 182	3.000	09/05	103.8708	-	2.47	2.61	2.83
Netherlands		8.500	06/06	119.6700	-0.020	5.75	5.83	5.95
Portugal		9.500	02/06	116.5500	+0.130	7.00	7.11	7.74
Spain		8.800	04/06	111.2300	-0.130	7.10	7.24	7.89
Sweden		6.000	02/05	94.1826	-0.120	6.95	7.09	7.33
UK Gilts		8.000	12/00	103-11	-1/32	7.03	7.14	6.87
		7.500	12/06	100-04	-10/32	7.48	7.54	7.54
		9.000	10/08	110-30	-15/32	7.59	7.63	7.67
US Treasury *		6.500	10/06	102-25	-8/32	6.12	6.18	6.52
		6.500	11/26	100-30	-13/32	6.43	6.46	6.82
ECU (French Govt)		7.000	04/06	105.6600	-0.040	6.18	6.23	6.38

London closing, *New York closing. Yields: Local market standard. † Gross (including withholding tax at 12.5 per cent payable by nonresidents) Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

BOND FUTURES AND OPTIONS

France

Germany

Italy

Spain

UK

Ecu

US

Japan

FTSE Actuaries Govt. Securities

UK Indices

	— Low coupon yield —			— Medium coupon yield —			— High coupon yield —		
	Nov 27	Nov 26	Yr. ago	Nov 27	Nov 26	Yr. ago	Nov 27	Nov 26	Yr. ago
5 yrs	7.14	7.10	7.03	7.19	7.16	7.05	7.23	7.21	7.11
15 yrs	7.66	7.63	7.75	7.64	7.60	7.80	7.62	7.58	7.85
20 yrs	7.72	7.70	7.82	7.69	7.64	7.85	7.66	7.61	7.88
Irred.†	7.73	7.75	7.86						

FT Fixed Interest Indices

Gilt Edged Activity Indices

UK GILTS PRICES

Other Fixed Interest

FT/ISMA INTERNATIONAL BOND SERVICE

FLOATING RATE NOTES

CONVERTIBLE BONDS

CURRENCIES AND MONEY

Weak tankan dents yen against dollar

MARKETS REPORT

By Simon Kuper

The yen fell yesterday as the weak Japanese tankan survey of business sentiment convinced traders that Japan was unlikely to raise interest rates for several months.

The dollar profited most from the yen's decline, closing in London Y0.5 stronger against the yen at Y113.3, but a fifth of a pfennig weaker against the D-Mark at DM1.526.

Once again the dollar was unmoved by a wave of US economic data. Third quarter gross domestic product was revised downwards, but less sharply than expected. October durable goods orders rose marginally where a drop had been forecast; and the University of Michigan's final index of consumer sentiment for November rose to 99.2, from 96.5 for October. Trading was thin ahead of today's Thanksgiving holiday.

Sterling softened against the D-Mark to DM2.554 but firmed to $1.674 against the dollar.

■ The quarterly tankan is widely considered the most comprehensive survey of any country's business outlook. Yesterday's fourth-quarter reading for large manufacturers was minus 3. That is weak, albeit an improvement on the minus 7 of the August tankan.

Mr Gerard Lyons, chief economist at DKB International in London, said: "The tankan shows the economy is recovering, but still only at a gradual pace." He pointed out that the business confidence index for non-manufacturers was expected to deteriorate in February's tankan. "It's very difficult to imagine the Bank of Japan doing anything to interest rates until they have a very clear idea of what impact the consumption tax starting next spring will have."

That means no G3 country is expected to raise rates in the coming months. Indeed, Mr Lyons predicts that both the Bundesbank and the US Federal Reserve will cut next rather than hike, as the German recovery falters and the US economy slows.

SBC Warburg in London yesterday forecast a further 50 basis point fall in German short term interest rates over the next three months. The rationale for a cut would be "not domestic conditions but rather mounting pressure for lower rates in Europe, especially in France," the bank wrote. Only weeks ago most currency strategists were expecting the next Bundesbank move to be a rate rise.

■ The debate over whether France will seek to devalue its currency has moved on. Few traders still believe that France will try to weaken the franc against the D-Mark, in order to lower its unemployment rate. That after all would strike at the heart of the *franc fort* policy. Various French cabinet ministers have rejected the idea.

But Mr Alain Juppe, the French prime minister, told parliament yesterday that he would ask the G7 to raise the issue of what he called the dollar's weakness. Seeking a stronger dollar appears to be the new thrust of French currency policy.

Mr Valery Giscard d'Estaing, the former French president who last week seemed to call for a franc devaluation against the D-Mark, now says he wants the franc to fall only against the dollar.

That could happen in either of two ways. Firstly, Paris would persuade the Bundesbank to allow the franc and the D-Mark to depreciate together against the dollar. The Bundesbank might agree to this if the German economic recovery remains slow. Such a move would allow the franc to keep tracking the D-Mark.

The other way the franc could weaken against the dollar but not against the D-Mark is if those countries joining the planned single European currency in the first wave in 1999 agreed to devalue the euro.

The German Chancellor Helmut Kohl yesterday showed no wish to sanction a weaker dollar. The euro, he said, should be a hard currency.

Nor is the Clinton Administration likely to favour a stronger dollar, as US carmakers already claim to have suffered from the dollar's recent rise against the yen. The dollar has also gained about 7.5 per cent against both the franc and the D-Mark this year.

Yet the US and Germany could have a fight on their hands with France.

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■ Pound in New York

Nov 27	—Latest—	— Prev. close —
£ spot	1.6745	1.6715
1 mth	1.6735	1.6705
3 mth	1.6710	1.6680
1 yr	1.6553	1.6532

■ OTHER CURRENCIES

Nov 27	£	$
Czech	45.0894 - 45.1444	26.9380 - 26.9880
Hungary	269.797 - 284.007	157.690 - 157.710
Iran	5022.00 - 5016.00	3000.00 - 3000.00
Kuwait	0.4990 - 0.5005	0.2980 - 0.2990
Poland	4.7418 - 4.7491	2.8340 - 2.8370
Russia	9218.32 - 9227.05	5510.00 - 5512.00
UAE	6.1449 - 6.1488	3.6720 - 3.6730

POUND SPOT FORWARD AGAINST THE POUND

Nov 27		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	17.9736	-0.0068	648 - 824	18.0368	17.9162	17.9501	2.9	17.8758	2.2	-	-	104.5
Belgium	(BFr)	52.6297	-0.0016	054 - 540	52.7950	52.4899	52.5047	2.9	52.2397	3.0	51.0447	3.0	105.5
Denmark	(DKr)	9.8044	-0.0068	991 - 096	9.8331	9.7754	9.7844	2.4	9.7438	2.5	9.5848	2.4	108.3
Finland	(FM)	7.6858	-0.0061	800 - 915	7.7080	7.6680	-	-	-	-	-	-	84.1
France	(FFr)	8.6521	-0.0172	488 - 554	8.6867	8.6371	8.6314	2.9	8.5897	2.9	8.385	3.1	107.8
Germany	(DM)	2.5540	-0.0011	528 - 552	2.5634	2.5480	2.5475	3.1	2.5342	3.1	2.4694	3.3	107.4
Greece	(Dr)	401.882	+0.083	635 - 128	403.022	400.412	-	-	-	-	-	-	67.2
Ireland	(I£)	0.9983	-0.0012	974 - 991	1.0010	0.9974	0.998	0.4	0.997	0.5	0.9904	0.8	102.4
Italy	(L)	2532.10	-2.9	085 - 335	2545.85	2529.46	2536.3	-1.9	2543.4	-1.8	2547.9	-0.6	77.8
Luxembourg	(LFr)	52.6297	-0.0016	054 - 540	52.7950	52.4899	52.5047	2.9	52.2397	3.0	51.0447	3.0	105.5
Netherlands	(Fl)	2.8640	-0.0027	637 - 661	2.8818	2.8571	2.8571	3.3	2.8418	3.3	2.7681	3.4	105.5
Norway	(NKr)	10.7147	-0.036	090 - 203	10.8067	10.7097	10.7022	1.4	10.6822	1.2	10.5772	1.3	99.4
Portugal	(Es)	257.818	-0.171	678 - 958	258.749	257.102	258.013	-0.9	258.383	-0.9	-	-	95.5
Spain	(Pta)	215.018	-0.086	906 - 128	215.665	214.663	215.181	-0.9	215.411	-0.7	215.411	-0.2	79.7
Sweden	(SKr)	11.1630	-0.0124	519 - 740	11.2048	11.1319	11.1518	0.1	11.1338	0.1	11.1468	0.1	89.1
Switzerland	(SFr)	2.1600	-0.0042	589 - 610	2.1699	2.1565	2.152	4.5	2.1388	4.3	2.0653	4.4	108.9
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	82.2
Ecu	-	1.3257	-	248 - 265	1.3292	1.3232	1.3238	1.8	1.3194	1.9	1.2979	2.1	-
SDR†	-	1.152268	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6731	+0.0006	727 - 735	1.6820	1.6708	-	-	-	-	-	-	-
Brazil	(R$)	1.7276	+0.0012	269 - 282	1.7365	1.7239	-	-	-	-	-	-	-
Canada	(C$)	2.2523	+0.0084	513 - 532	2.2608	2.2450	2.2471	2.7	2.2363	2.8	2.1773	3.3	85.7
Mexico	(New Peso)	13.1930	+0.0488	815 - 045	13.2502	13.1549	-	-	-	-	-	-	-
USA	($)	1.6736	+0.0028	732 - 740	1.6825	1.6711	1.6726	0.7	1.6701	0.8	1.655	1.1	97.1
Pacific/Middle East/Africa													
Australia	(A$)	2.0626	+0.0029	616 - 639	2.0751	2.0610	2.0641	-0.8	2.0646	-0.4	2.0644	-0.1	98.0
Hong Kong	(HK$)	12.9407	+0.0069	372 - 442	13.0065	12.9219	12.9334	0.7	12.9195	0.7	12.8549	0.7	-
India	(Rs)	59.7810	-0.0181	332 - 288	60.0650	59.7250	-	-	-	-	-	-	-
Israel	(Shk)	5.4570	+0.0384	528 - 611	5.4771	5.4117	-	-	-	-	-	-	-
Japan	(Y)	189.703	+1.148	590 - 815	190.380	187.770	188.773	5.9	186.919	5.9	176.503	5.9	128.3
Malaysia	(M$)	4.2274	+0.0038	258 - 290	4.2492	4.2172	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.3620	+0.0032	608 - 634	2.3787	2.3570	2.3697	-3.4	2.3762	-2.7	2.399	-1.8	111.4
Philippines	(Peso)	43.9906	+0.0554	048 - 764	44.0764	43.9048	-	-	-	-	-	-	-
Saudi Arabia	(SR)	6.2769	+0.0034	752 - 785	6.3100	6.2700	-	-	-	-	-	-	-
Singapore	(S$)	2.3460	+0.0013	450 - 469	2.3572	2.3420	-	-	-	-	-	-	-
South Africa	(R)	7.6157	-0.0528	097 - 217	7.6822	7.6097	-	-	-	-	-	-	-
South Korea	(Won)	1388.84	+1.84	842 - 925	1398.14	1388.42	-	-	-	-	-	-	-
Taiwan	(T$)	46.0240	+0.0247	795 - 685	46.2351	45.9795	-	-	-	-	-	-	-
Thailand	(Bt)	42.6643	+0.0564	499 - 786	42.8720	42.5580	-	-	-	-	-	-	-

† Rates for Nov 26. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Nov 27		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan Index
Europe													
Austria	(Sch)	10.7395	-0.0106	368 - 422	10.7490	10.7070	10.7248	1.8	10.6795	2.2	10.4845	2.4	104.4
Belgium	(BFr)	31.4470	-0.018	400 - 540	31.4870	31.3600	31.387	2.3	31.2595	2.4	30.7195	2.3	105.3
Denmark	(DKr)	5.8583	-0.0072	565 - 600	5.8621	5.8408	5.8494	1.8	5.831	1.8	5.7493	1.8	108.3
Finland	(FM)	4.5924	-0.0061	900 - 947	4.5970	4.5725	4.5936	2.3	4.5848	2.4	4.4824	2.4	83.8
France	(FFr)	5.1698	-0.013	690 - 705	5.1830	5.1592	5.1615	1.9	5.1435	2.0	5.0678	2.0	107.5
Germany	(DM)	1.5261	-0.0015	257 - 264	1.5273	1.5215	1.5232	2.3	1.5172	2.3	1.4925	2.2	107.0
Greece	(Dr)	240.130	-0.08	040 - 220	240.300	239.360	241.685	-7.8	244.255	-6.9	265.25	-8.3	66.9
Ireland	(I£)	1.6765	+0.003	755 - 775	1.6843	1.6725	1.6761	0.3	1.6757	0.2	1.6728	0.2	-
Italy	(L)	1512.97	-0.55	263 - 330	1519.30	1508.00	1518.14	-4.1	1522.57	-2.5	1535.22	-1.5	77.1
Luxembourg	(LFr)	31.4470	-0.018	400 - 540	31.4870	31.3600	31.387	2.3	31.2595	2.4	30.7195	2.3	105.3
Netherlands	(Fl)	1.7118	-0.0025	115 - 121	1.7184	1.7074	1.708	2.7	1.7	2.8	1.6644	2.8	105.2
Norway	(NKr)	6.4022	-0.0368	003 - 040	6.4460	6.3885	6.3984	0.7	6.3926	0.6	6.3672	0.5	98.4
Portugal	(Es)	154.050	-0.165	000 - 100	154.200	153.250	154.255	-1.6	154.55	-1.3	155.925	-0.8	95.7
Spain	(Pta)	128.475	-0.12	440 - 510	128.570	128.080	128.655	-1.7	128.915	-1.4	129.58	-0.9	79.5
Sweden	(SKr)	6.6700	-0.0111	650 - 750	6.6841	6.6480	6.6672	0.5	6.6574	0.6	6.61	0.9	88.6
Switzerland	(SFr)	1.2906	-0.0032	903 - 909	1.2922	1.2865	1.2868	3.5	1.279	3.6	1.2461	3.4	108.6
UK	(£)	1.6736	+0.0009	732 - 740	1.6825	1.6711	1.6726	0.7	1.6701	0.8	1.655	1.1	92.9
Ecu	-	1.2625	+0.0007	620 - 630	1.2668	1.2620	1.2636	-1.3	1.267	-1.4	1.2695	-1.7	-
SDR†	-	0.69038	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9997	-0.0002	997 - 997	0.9997	0.9997	-	-	-	-	-	-	-
Brazil	(R$)	1.0323	+0.0002	321 - 324	1.0324	1.0320	-	-	-	-	-	-	-
Canada	(C$)	1.3458	+0.0031	455 - 460	1.3460	1.3421	1.3435	2.1	1.3384	2.2	1.3109	2.6	85.2
Mexico	(New Peso)	7.8830	+0.018	780 - 880	7.8860	7.8780	8.001	-18.0	8.2575	-19.5	9.128	-15.8	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	97.7
Pacific/Middle East/Africa													
Australia	(A$)	1.2325	+0.001	321 - 329	1.2333	1.2321	1.234	-1.5	1.2359	-1.1	1.2414	-0.7	97.7
Hong Kong	(HK$)	7.7323	-	320 - 325	7.7325	7.7320	7.7322	0.0	7.7328	0.0	7.7498	-0.1	-
India	(Rs)	35.7200	-0.05	000 - 400	35.7400	35.6800	35.935	-7.2	36.395	-7.5	-	-	-
Israel	(Shk)	3.2606	+0.0211	589 - 623	3.2623	3.2374	-	-	-	-	-	-	-
Japan	(Y)	113.350	+0.625	310 - 390	113.390	112.290	112.875	5.0	111.87	5.2	107.87	5.0	129.6
Malaysia	(M$)	2.5260	+0.001	258 - 263	2.5272	2.5236	2.5288	-1.4	2.5342	-1.3	2.5555	-1.2	-
New Zealand	(NZ$)	1.4113	+0.0012	108 - 118	1.4118	1.4108	1.4168	-4.7	1.4211	-2.8	1.4526	-2.9	-
Philippines	(Peso)	26.2850	+0.019	400 - 300	26.3300	26.2400	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	-	504 - 506	3.7506	3.7504	3.7508	-0.1	3.7512	-0.1	3.7551	-0.1	-
Singapore	(S$)	1.4018	+0.0001	015 - 020	1.4020	1.4012	1.3996	1.8	1.395	1.9	1.3738	2.0	-
South Africa	(R)	4.5505	-0.034	480 - 530	4.5840	4.5480	4.5912	-10.7	4.6662	-10.2	4.981	-9.5	-
South Korea	(Won)	829.850	+0.65	800 - 900	830.900	829.800	-	-	-	-	-	-	-
Taiwan	(T$)	27.5000	-	800 - 200	27.5200	27.4600	27.5001	0.0	27.5003	0.0	-	-	-
Thailand	(Bt)	25.4925	+0.02	900 - 950	25.4960	25.4670	25.5825	-4.2	25.75	-4.0	26.3675	-3.5	-

† SDR rate per $ for Nov 26. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Nov 26: Base average 1990=100.

WORLD INTEREST RATES

MONEY RATES

November 27	Over night	One month	Three mths	Six mths	One year	Lomb. Inter.	Dis. rate	Repo rate
Belgium	3⅛	3¼	3⅛	3⅛	3¼	6.00	2.50	-
France	3⅜	3⅜	3⅜	3½	3⅜	3.20	-	4.75
Germany	3¼	3¼	3¼	3¼	3¼	4.50	2.50	3.00
Ireland	5½	5⅝	5⅝	5¾	5⅝	-	-	6.25
Italy	8¼	7⅝	7¼	6⅞	6⅝	9.00	7.50	8.05
Netherlands	2⅝	2⅝	3	3⅛	3¼	-	3.00	3.30
Switzerland	1⅛	1⅝	2	2¼	2¼	-	1.00	-
US	5⅝	5¼	5⅜	5⅜	5½	-	5.00	-
Japan	½	½	½	½	½	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	5⅜	5½	5⅝	5⅞	-	-	-
US Dollar CDs	-	5.13	5.10	5.14	5.26	-	-	-
ECU Linked Ds	-	4⅜	4⅜	4¼	4¼	-	-	-
SDR Linked Ds	-	3¼	3¼	3⅜	3½	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Nov 27	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3⅛ - 2⅞	3⅛ - 3	3⅛ - 3	3¼ - 3⅛	3¼ - 3⅛	3⅜ - 3¼
Danish Krone	3⅝ - 3¼	3⅝ - 3½	3⅝ - 3½	3⅝ - 3½	3¾ - 3⅝	3⅞ - 3¾
D-Mark	3⅜ - 3⅛	3⅜ - 3¼	3⅛ - 2⅞	3¼ - 3	3¼ - 3	3⅜ - 3⅛
Dutch Guilder	2⅞ - 2¾	2⅞ - 2¾	2⅞ - 2¾	3⅛ - 3	3¼ - 3⅛	3⅜ - 3¼
French Franc	3⅜ - 3¼	3⅜ - 3¼	3⅜ - 3¼	3½ - 3⅜	3⅝ - 3½	3⅞ - 3¾
Portuguese Esc.	6⅞ - 6¾	6⅞ - 6¾	6⅞ - 6¾	6⅝ - 6½	6⅝ - 6½	6⅝ - 6½
Spanish Peseta	6⅞ - 6¾	6⅞ - 6¾	6⅞ - 6¾	6¾ - 6⅝	6⅝ - 6½	6⅝ - 6½
Sterling	6¼ - 6¼	5⅞ - 5¾	6⅛ - 6	6¼ - 6⅛	6½ - 6⅜	6⅞ - 6¾
Swiss Franc	2 - 1¾	2⅛ - 2	1⅞ - 1¾	2⅛ - 1⅞	2⅛ - 1⅞	2¼ - 2⅛
Can. Dollar	3⅛ - 2⅞	3⅛ - 2⅞	2⅞ - 2¾	2⅞ - 2¾	3⅛ - 2⅞	3¼ - 3⅛
US Dollar	5⅜ - 5¼	5⅜ - 5¼	5⅜ - 5¼	5⅜ - 5¼	5½ - 5⅜	5⅝ - 5½
Italian Lira	8⅜ - 7½	8 - 7⅞	7⅞ - 7¾	7¼ - 7⅛	6⅞ - 6¾	6⅞ - 6¾
Yen	½ - ¼	½ - ⅜	½ - ⅜	½ - ⅜	⅝ - ½	⅝ - ½
Asian $Sing	3½ - 3⅜	3½ - 3⅜	3⅝ - 3½	3⅝ - 3½	3⅝ - 3½	3½ - 3⅜

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.43	96.46	+0.03	96.48	96.43	10,987	40,049
Mar	96.36	96.40	+0.04	96.42	96.36	20,435	57,848
Jun	96.36	96.38	+0.02	96.41	96.35	4,374	33,829

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.78	96.75	-0.04	96.78	96.75	20094	204235
Mar	96.80	96.77	-0.03	96.81	96.77	23530	205495
Jun	96.68	96.65	-0.03	96.70	96.65	12714	168074
Sep	96.51	96.48	-0.02	96.52	96.48	9397	133585

■ ONE MONTH EUROMARK FUTURES (LIFFE)* DM3m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.73	96.70	-0.04	96.73	96.70	602	2617
Jan	96.85	96.83	-0.02	96.85	96.84	290	1163
Feb	-	96.83	-0.01	-	-	0	1735
Mar	96.83	96.81	-0.02	96.83	96.81	251	731

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	92.93	92.89	-0.05	92.94	92.86	8879	69464
Mar	93.60	93.54	-0.06	93.62	93.52	14891	74012
Jun	93.90	93.86	-0.05	93.92	93.83	5522	44605
Sep	94.00	93.96	-0.04	94.02	93.93	3221	27524

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	97.88	97.91	+0.03	97.92	97.88	5887	28642
Mar	97.85	97.91	+0.05	97.91	97.84	6042	33583
Jun	97.67	97.72	+0.05	97.73	97.67	1701	16442
Sep	97.45	97.49	+0.06	97.50	97.45	320	6697

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	99.47	99.47	+0.02	99.47	99.46	204	n/a
Mar	-	99.42	+0.05	-	-	0	n/a
Jun	-	99.28	+0.07	-	-	0	n/a

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	95.84	95.82	-0.01	95.85	95.83	1108	7979
Mar	95.85	95.84	-0.01	95.88	95.84	867	6698
Jun	95.86	95.83	-0.01	95.86	95.84	361	3577
Sep	95.79	95.75	-0.01	95.79	95.75	112	3194

* LIFFE futures also traded on APT

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Dec	Mar	Jun	PUTS Dec	Mar	Jun
9275	0.19	0.85	1.21	0.05	0.06	0.10
9300	0.05	0.64	0.99	0.16	0.10	0.13
9325	0.02	0.44	0.79	0.38	0.15	0.18

Est. vol. total, Calls 1208 Puts 1100. Previous day's open int., Calls 126086 Puts 96869

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Nov 27		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.63	16.44	4.853	1.896	4811	5.444	20.35	489.8	408.5	21.20	4.104	1.900	4.279	3.181	360.4	2.519
Denmark	(DKr)	53.68	10	8.825	2.605	1.018	2583	2.922	10.92	263.0	219.3	11.38	2.203	1.020	2.297	1.707	193.5	1.353
France	(FFr)	60.83	11.33	10	2.952	1.153	2926	3.311	12.38	298.0	248.5	12.90	2.497	1.156	2.603	1.935	219.3	1.533
Germany	(DM)	20.61	3.839	3.388	1	0.391	991.4	1.122	4.193	100.9	84.18	4.370	0.846	0.392	0.882	0.655	74.28	0.519
Ireland	(I£)	52.74	9.824	8.669	2.559	1	2537	2.871	10.73	258.3	215.4	11.18	2.164	1.002	2.257	1.677	190.1	1.329
Italy	(L)	2.079	0.387	0.342	0.101	0.039	100.	0.113	0.423	10.18	8.491	0.441	0.085	0.039	0.089	0.066	7.492	0.052
Netherlands	(Fl)	18.37	3.422	3.020	0.891	0.348	883.8	1.	3.738	89.98	75.04	3.895	0.754	0.349	0.786	0.584	66.21	0.463
Norway	(NKr)	49.14	9.154	8.078	2.385	0.932	2364	2.675	10	240.7	200.7	10.42	2.017	0.934	2.103	1.563	177.1	1.238
Portugal	(Es)	20.42	3.803	3.356	0.991	0.387	982.2	1.111	4.154	100.	83.40	4.329	0.838	0.388	0.874	0.649	73.58	0.514
Spain	(Pta)	24.48	4.560	4.024	1.188	0.464	1178	1.333	4.981	119.9	100.	5.191	1.005	0.465	1.047	0.779	88.23	0.617
Sweden	(SKr)	47.16	8.785	7.753	2.288	0.894	2268	2.567	9.597	231.0	192.7	10	1.935	0.896	2.018	1.500	170.0	1.188
Switzerland	(SFr)	24.37	4.539	4.006	1.182	0.462	1172	1.326	4.958	119.4	99.54	5.167	1	0.463	1.043	0.775	87.82	0.614
UK	(£)	52.63	9.804	8.652	2.554	0.998	2532	2.865	10.71	257.8	215.0	11.16	2.160	1	2.252	1.674	189.7	1.326
Canada	(C$)	23.37	4.353	3.842	1.134	0.443	1124	1.272	4.756	114.5	95.47	4.958	0.959	0.444	1	0.743	84.24	0.589
US	($)	31.44	5.857	5.168	1.526	0.596	1513	1.711	6.398	154.0	128.4	6.667	1.290	0.597	1.345	1	113.3	0.792
Japan	(Y)	27.74	5.168	4.561	1.346	0.526	1335	1.510	5.646	135.9	113.3	5.883	1.139	0.527	1.187	0.882	100.	0.699
Ecu		39.69	7.394	6.525	1.926	0.753	1910	2.161	8.077	194.4	162.1	8.416	1.629	0.754	1.698	1.262	143.1	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	0.6567	0.6550	-0.0016	0.6580	0.6545	22,616	65,552
Mar	0.6602	0.6586	-0.0017	0.6614	0.6580	866	6,584
Jun	-	0.6622	-0.0018	0.6645	0.6622	116	2,886

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	0.8908	0.8844	-0.0062	0.8930	0.8840	12,824	62,608
Mar	0.8972	0.8957	-0.0062	0.8979	0.8955	572	3,774
Jun	0.9081	0.9069	-0.0061	0.9081	0.9069	266	1,003

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	0.7763	0.7751	-0.0011	0.7788	0.7745	17,460	54,079
Mar	0.7828	0.7815	-0.0011	0.7854	0.7810	842	5,259
Jun	0.7873	0.7879	-0.0011	0.7905	0.7873	28	757

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	1.6708	1.6740	+0.0034	1.6826	1.6706	8,461	58,220
Mar	1.6722	1.6702	+0.0034	1.6798	1.6680	613	2,151
Jun	1.6690	1.6650	+0.0034	1.6720	1.6640	8	1,289

UK INTEREST RATES

LONDON MONEY RATES

Nov 27	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6⅛ - 5	6 - 5⅞	6⅛ - 5⅞	6⅜ - 6¼	6½ - 6⅜	6⅞ - 6¾
Sterling CDs	-	-	6⅛ - 6	6⅜ - 6¼	6½ - 6⅜	6⅞ - 6¾
Treasury Bills	-	-	5⅞ - 5⅞	6⅛ - 6⅛	-	-
Bank Bills	-	-	5⅞ - 5⅞	6¼ - 6⅛	6⅜ - 6⅜	-
Local authority deps.	6⅝ - 6	6 - 5¾	6⅛ - 6	6⅜ - 6⅜	6⅝ - 6⅜	6⅞ - 6⅞
Discount Market deps	6¼ - 5⅝	5⅞ - 5¾	-	-	-	-

UK clearing bank base lending rate 6 per cent from October 30, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1½pc.
Ave. tender rate of discount on Nov 22, 5.1365pc. ECGD fixed rate Stlg. Export Finance. Make up day Oct 31, 1996. Agreed rate for period Nov 26, 1996 to Dec 24, 1996, Scheme III 7.25pc. Reference rate for period Oct 1, 1996 to Oct 31, 1996, Schemes IV & V 6.001pc. Finance House Base Rate 6pc from Nov 1, 1996

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	93.59	93.54	-0.04	93.59	93.52	13529	96734
Mar	93.35	93.28	-0.06	93.35	93.27	23206	106656
Jun	93.10	93.00	-0.09	93.10	92.98	19858	96993
Sep	92.95	92.83	-0.10	92.95	92.83	11473	58019
Dec	92.82	92.73	-0.10	92.83	92.73	5178	40692

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Dec	Mar	Jun	PUTS Dec	Mar	Jun
9350	0.10	0.07	0.06	0.06	0.29	0.58
9375	0.01	0.02	0.04	0.22	0.49	0.79
9400	0	0.01	0.02	0.46	0.73	1.02

Est. vol. total, Calls 7790 Puts 2735. Previous day's open int., Calls 235566 Puts 166612

EMS EUROPEAN CURRENCY UNIT RATES

Nov 27	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Ireland	0.798709	0.755318	-0.003079	-5.43	7.38	37
Portugal	197.398	195.507	+0.309	-0.96	2.53	6
Spain	163.826	162.901	+0.109	-0.56	2.12	4
Finland	5.85424	5.82153	-0.00124	-0.56	2.12	4
Netherlands	2.16979	2.17168	+0.0015	0.09	1.46	-1
Belgium	39.7191	39.8841	+0.0219	0.42	1.13	-3
Germany	1.92573	1.93539	+0.00126	0.50	1.04	-5
Austria	13.5485	13.6200	+0.009	0.53	1.01	-4
Italy	1906.48	1921.47	+3.22	0.79	0.76	-6
Denmark	7.34555	7.42896	+0.00296	1.14	0.41	-8
France	6.45863	6.55858	-0.00185	1.55	0.00	-13
NON ERM MEMBERS						
Greece	295.269	304.396	+0.163	3.09	-1.50	-
UK	0.793103	0.756534	-0.002681	-4.61	8.46	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. 17/9/92: Sterling suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Dec	Jan	Feb	PUTS Dec	Jan	Feb
1.660	1.83	2.39	2.94	0.45	1.06	1.74
1.670	1.19	1.81	2.45	0.71	1.48	2.36
1.680	0.70	1.34	1.93	1.30	2.01	2.73

Previous day's vol., Calls 1,295 Puts 3,348. Prev. day's open int., Calls 81,261 Puts 66,917

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS Dec	Jan	Feb	PUTS Dec	Jan	Feb
0.650	0.64	0.43	1.24	0.15	0.83	0.51
0.655	0.33	0.27	0.95	0.33	1.18	0.73
0.660	0.16	0.17	0.70	0.82	-	0.99

Previous day's vol., Calls 723 Puts 2,322. Prev. day's open int., Calls 3,297 Puts 27,169

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.51	94.51	+0.01	94.52	94.50	37,164	415,596
Mar	94.51	94.51	-0.02	94.54	94.50	56,078	379,362
Jun	94.43	94.42	-0.09	94.46	94.41	46,860	295,264

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	95.00	94.99	-	95.01	94.99	938	2,089
Mar	95.02	95.01	-	95.04	95.01	408	3,682
Jun	94.91	94.91	-	94.93	94.91	126	1,919

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Dec	Jan	Feb	Mar	PUTS Dec	Jan	Feb	Mar
9675	0.03	0.07	0.09	0.12	0.03	0.05	0.07	0.10
9700	0	0.01	0.02	0.03	0.25	0.24	0.25	0.26
9725	0	0	0	0	0.50	0.48	0.48	0.48

Est. vol. total, Calls 15518 Puts 8550. Previous day's open int., Calls 509287 Puts 338891

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Dec	Mar	Jun	PUTS Dec	Mar	Jun
9800	0.07	0.25	0.29	0.16	0.34	0.57
9825	0.03	0.13	0.18	0.37	0.47	0.71

Est. vol. total, Calls 1100 Puts 50. Previous day's open int., Calls 3646 Puts 2020

BASE LENDING RATES

	%		%		%
Adam & Company	6.00	Cyprus Popular Bank	6.00	NatWestminster	6.00
Allied Irish Bank (GB)	6.00	Duncan Lawrie	6.00	●Rea Brothers	6.00
Allied Trust Bank	6.00	Exeter Bank Limited	7.00	Royal Bk of Scotland	6.00
●Henry Ansbacher	6.00	Financial & Gen Bank	7.00	●Singer & Friedlander	6.00
Bank of Baroda	6.00	●Robert Fleming & Co	6.00	●Smith & Williamson Secs	6.00
Banco Bilbao Vizcaya	6.00	Girobank	5.75	Scottish Widows Bank	6.00
Bank of Cyprus	6.00	●Guinness Mahon	6.00	TSB	6.00
Bank of Ireland	6.00	Habib Bank AG Zurich	6.00	United Bank of Kuwait	6.00
Bank of India	6.00	●Hambros Bank	6.00	Unity Trust Bank Plc	6.00
Bank of Scotland	6.00	Heritable & Gen Inv Bk	6.00	Western Trust	6.00
Barclays Bank	6.00	●Hill Samuel	6.00	Whiteaway Laidlaw	6.00
Brit Bk of Mid East	6.00	C. Hoare & Co	6.00	Yorkshire Bank	6.00
●Brown Shipley & Co Ltd	6.00	Hongkong & Shanghai	6.00		
Citibank NA	6.00	Julian Hodge Bank	6.00	● Members of London Investment Banking Association	
Clydesdale Bank	6.00	●Leopold Joseph & Sons	6.00		
The Co-operative Bank	6.00	Lloyds Bank	6.00	* In administration	
Coutts & Co	6.00	Midland Bank	6.00		
Credit Lyonnais	6.00	*Mount Credit Corp	6.25		

COMMODITIES AND AGRICULTURE

Central bank wants gold bullion market in Russia

By Kenneth Gooding, Mining Correspondent

Russia's central bank is determined that an active gold bullion market should develop in Moscow, Mr Aleksandr Potemkin, the deputy chairman of the bank, indicated yesterday.

With this in mind, he hoped that very shortly the central bank would be able to buy and sell gold from the private commercial banks which only recently had won the right to buy gold from Russian producers. Previously all the precious metal had to go to the state authorities.

The Russian authorities also wanted to create the right conditions to attract foreign banks to play their part in giving the bullion market liquidity and helping to finance the republic's gold industry, Mr Potemkin added.

He was speaking after giving a presentation at a conference in London on gold and diamonds in the Commonwealth of Independent States organised by the Adam Smith Institute.

Mr Potemkin said that the development of a liquid bullion market would enable the bank to quote a rouble gold price every day instead of once a month.

Mr Pavel Maslovsky, president of the Tokur-Zoloto gold company, said that producers would welcome the central bank's initiative.

At present some private banks are licensed to buy gold and can pay producers up to half the price in foreign currency. But, because the banks cannot export gold, they are reluctant to buy large quantities, particularly on a regular basis.

Producers therefore frequently have no option but to sell to the state organisation which sometimes takes weeks to pay. It was also unsatisfactory to have a rouble price quoted only once a month, said Mr Maslovsky.

Mr Rajat Kohli, associate director of Banque Paribas UK, said that, if all the proposed plans for western-led gold projects in Russia came to fruition it would involve expenditure of $1.8bn over the next four or five years. Annual gold output in the republic would increase by 139 tonnes and nearly double present production.

But he suggested both expenditure and output would be well below these levels because of "a lack of reputable partners, disappointing fundamentals, lack of funding and a change of priorities on the part of western companies".

Only 15 months ago, he was estimating that western-led new gold production in the CIS as a whole in 1999 would be 65 tonnes. That had been revised downwards to 37 tonnes.

"In sum, the former Soviet Union is not a new El Dorado and may never attain this position, especially as it is competing for a limited universe of mining finance with other emerging markets, such as Latin America, sub-Saharan Africa and south-east Asia. But it is a potentially attractive investment destination and will, over the next three to five years, see the development and completion of more western-led gold projects."

Leading diamond producer urged to support domestic cutting industry

Russia's leading diamond producer was yesterday urged to give preference to the domestic diamond cutting industry, rather than letting exports go to the international cartel organised by De Beers of South Africa, Kenneth Gooding writes.

The call to Almazy Rossii Sakha, the republic's big rough (uncut) diamond producer, came from Mr Evgeny Bychkov, president of the Russian Association of Diamond Manufacturers. He was speaking at a conference in London on gold and diamonds in the Commonwealth of Independent States.

He complained that De Beers' pricing policies made it unprofitable for Russian companies to cut and polish some rough gem stones.

Rehearsing the arguments he has been using to have the proposed new diamond marketing contract between Russia and De Beers redrawn, Mr Bychkov said: "If there existed in Russia a developed market for rough and gem diamonds, a high quality, dedicated financial infrastructure and a developed diamond-cutting and jewellery industry, then the direct revenues of the Russian Federation could be increased by some $4bn to $5bn. A radical expansion of the diamond-cutting industry alone could provide at least 10,000 jobs."

Mr Bychkov said that last year Russia's own industry processed $900m worth of rough diamonds and sold gem diamonds worth $1bn. He claimed that, given the right circumstances, domestic cutters could within a year take all of Russia's rough diamond output.

Comalco to close kaolin plant

By Nikki Tait in Sydney

Comalco, the Australian alumina and aluminium producer, is to shut down its kaolin operations at Weipa in far north Queensland, claiming the "substantial" investment required to give it a meaningful market share could not be justified.

The company, whose shares are listed in Australia but which is controlled by RTZ-CRA, the Anglo-Australian mining group, said the current production rate of around 110,000 tonnes a year was "not economically viable".

It said closure of the 10-year-old operations would result in an abnormal charge of up to A$40m (US$32.5m) after tax, and result in 93 job losses – although some of these people may be deployed elsewhere within the group. The kaolin plant, which underwent expansion two years ago, will be put on a care and maintenance basis for the time being.

Much of the kaolin produced at Weipa – where it has always been a side-product of Comalco's bauxite mining operations – is sold into the Japanese market.

The kaolin decision came as part of the more general "restructuring" package for the Weipa operations, which were the focus of a clash last year between Comalco and Australia's unions over collective bargaining rights.

Although no final expenditure figure for the changes has been established, the cost is likely to be around A$70m.

Meanwhile, Weipa's workforce, currently 740, is expected to fall to under 600 in the first instance (including the kaolin job losses), and could halve over a three-year period.

Dominion near funding decision

By Nikki Tait

Dominion Mining, the Australian group, told shareholders yesterday that it was close to making a recommendation to its board on the best way to fund the potential A$460m (US$374m) Yakabindie nickel project.

"We are in active discussions with possible partners and supporters and we believe that these discussions are converging towards a situation that will see a start to the development," said Mr Peter Joseph, the company's chairman, at yesterday's annual meeting.

Later, he admitted that one of the options under consideration was listing in Canada. "There is quite a bit of interest in nickel in that country," he said.

Yakabindie has proven and probable reserves of 193m tonnes graded at 0.51 per cent nickel, and a resource of 293m tonnes grading at 0.525 per cent. Production is planned to start in the third quarter of next year.

Last year, North, the larger Melbourne-based mining group, walked away from a deal that could have seen it take up to 80 per cent of the project at a cost of A$1m for each one percentage point of interest taken up. North currently has a 15 per cent stake.

● Renison Gold Fields, the Australian mining group, and Goldfields, its separately-listed gold-mining offshoot, said they had entered a memorandum of understanding for the exploration and development of gold and polymetallic deposits in Ukraine.

The agreement is with various Ukrainian government organisations, and foreshadows a formal joint venture being formed.

No signs of end to copper volatility

MARKETS REPORT

By Kenneth Gooding and Deborah Hargreaves

The London Metal Exchange's copper market remained extremely volatile yesterday, and analysts suggested it was likely to stay that way until options activity peaked between December 16 and 18.

In late trading last night copper for delivery in three months was $2,272 a tonne, up $14 from Tuesday. The premium for metal for immediate delivery (the backwardation) increased during the day from $230 to $275 a tonne. Some traders argued that LME copper stocks were so low that the premium was justified and required if excess copper remaining in the global system was to be flushed out and delivered to the exchange.

Mr William Adams, analyst at Rudolf Wolff, the Noranda subsidiary, said: "Recent strength suggests the rally is not about to roll over just yet and, with option declaration next week, there is certainly potential for aggressive short covering should prices move up towards $2,600 for the December date. At the moment December is around $2,430."

He added: "Although the extent of the recent stock drawdown suggests that the market is in deficit, we still feel that the fundamentals do not justify the extent of this move and that, once this bout of tightness has passed – perhaps after option declaration – then market will once again focus on the deteriorating fundamentals."

Trading was choppy and thin in the crude oil market as traders cleared their books ahead of the long Thanksgiving weekend in the US. Prices for oil and products such as gasoline showed moderate rises, but expectations of a return of Iraqi crude to the market in the near term prevented any stronger move.

However, not much business was conducted and prices remained volatile. Traders said they did not expect any important news from the Opec meeting in Vienna.

The market was supported by the release of US stock figures which traders interpreted as being fairly bullish for prices, in spite of a small build-up in distillate stocks – including heating oil.

"The statistics are pretty constructive, but we need more confirmation for a run-up in price, and news about Iraq is capping the market," said one London trader.

January futures at London's International Petroleum Exchange were up 20 cents at $22.94 a barrel, but volatile within a 30-cent range. January crude futures at the New York Mercantile Exchange were 13 cents higher at mid-session, at $23.62 a barrel.

Malcolm Watson

Traders at the LME yesterday: three-month copper climbed $14 in another hectic session

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1519.5-20.5	1546-47
Previous	1508-9	1533-4
High/low		1555/1534
AM Official	1509-10	1536-6.5
Kerb close		1545/45.5
Open int.	224,228	
Total daily turnover	58,321	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1348-53	1375-78
Previous	1350-60	1380-85
High/low		1400/1380
AM Official	1355-8	1383-5
Kerb close		1385-90
Open int.	6,285	
Total daily turnover	637	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	696.5-7.5	704-5
Previous	708-9	714-5
High/low	696	710/694
AM Official	696-7	704-5
Kerb close		693-4
Open int.	38,673	
Total daily turnover	5,360	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	6945-55	7030-40
Previous	6980-90	7070-75
High/low	6795/6970	7070/7020
AM Official	6975-80	7050-55
Kerb close		7020-25
Open int.	46,827	
Total daily turnover	13,458	

■ TIN ($ per tonne)

	Cash	3 mths
Close	6100-10	6115-20
Previous	6140-50	6145-50
High/low		6165/6095
AM Official	6135-45	6140-50
Kerb close		6095-100
Open int.	15,077	
Total daily turnover	2,724	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1057.5-58.5	1081-81.5
Previous	1063-4	1086-7
High/low		1087/1075
AM Official	1060.5-1.5	1084-4.5
Kerb close		1075-76
Open int.	84,796	
Total daily turnover	12,172	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2545-50	2272-73
Previous	2515-20	2271-73
High/low	2545	2275/2235
AM Official	2480-85	2242-43
Kerb close		2271-72
Open int.	170,264	
Total daily turnover	89,757	

■ LME AM Official £/$ rate: 1.6787
LME Closing £/$ rate: 1.6730

Spot: 1.6734 3 mths: 1.6701 6 mths: 1.6662 9 mths: 1.6613

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	110.30	+2.10	110.40	107.70	11,504	10,124
Jan	108.80	+1.95	108.90	106.70	1,849	5,047
Feb	106.80	+1.20	106.20	104.70	196	1,182
Mar	104.80	+0.70	105.05	103.00	11,030	26,119
Apr	103.00	+0.90	102.00	101.75	31	701
May	100.30	+0.20	100.40	99.60	194	3,968
Total					24,978	61,890

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	373.60-374.00		
Opening	374.20-374.60		
Morning fix	373.85	222.79	482.32
Afternoon fix	373.00	222.10	480.42
Day's High	374.20-374.60		
Day's Low	372.70-373.10		
Previous close	373.80-374.20		

Loco Ldn Mean Gold Lending Rates (Vs US$)
1 month ....2.88 6 months 3.15
2 months ....2.88 12 months 3.37
3 months 2.87

Silver Fix	p/troy oz.	US cts equiv.
Spot	282.50	474.00
3 months	286.50	479.75
6 months	290.70	485.90
1 year	299.90	497.50

Gold Coins	$ price	£ equiv.
Krugerrand	376-378	225-226
Maple Leaf	377.75-380.15	-

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	373.0	-1.7	375.3	372.5	31,984	17,847
Feb	375.0	-1.8	377.3	374.5	45,155	86,140
Apr	377.0	-1.8	378.4	376.5	4,469	19,577
Jun	379.2	-1.8	380.5	379.0	1,030	12,922
Aug	381.5	-1.8	-	-	20	5,430
Oct	383.9	-1.8	-	-	22	2,115
Total					84,385	191,221

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	379.9	-2.8	382.7	379.5	1,274	17,834
Apr	382.5	-2.7	384.5	382.0	293	6,387
Jul	385.4	-2.7	-	-	5	932
Oct	388.5	-2.7	388.0	388.0	2	393
Total					1,574	27,224

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	118.10	-0.85	115.45	114.50	1,747	2,352
Mar	116.60	-	117.25	116.00	2,885	5,448
Jun	117.70	+0.40	118.25	118.25	3	247
Dec	118.70	+0.30	-	-	4	16
Total					4,644	8,808

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	471.4	-	473.0	469.0	19,452	8,285
Jan	473.4	-	-	-	-	26
Mar	478.5	-	480.5	477.5	23,842	55,574
May	482.7	-	485.0	477.5	2,421	8,606
Jul	487.0	-0.1	485.5	482.0	898	7,424
Sep	491.5	-0.1	491.5	491.5	16	3,134
Total					46,907	89,184

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	23.66	+0.05	23.92	23.62	34,299	99,223
Feb	23.15	+0.02	23.38	23.13	15,325	43,523
Mar	22.80	+0.09	23.00	22.72	3,765	24,874
Apr	22.25	+0.07	22.50	22.35	3,113	19,624
May	21.93	+0.05	22.07	21.75	1,438	14,810
Jun	21.50	+0.04	21.67	21.50	1,636	27,937
Total					64,892	282,671

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	22.75	+0.01	23.02	22.79	10,656	82,203
Feb	22.18	+0.05	22.38	22.14	7,278	38,163
Mar	21.85	+0.01	21.82	21.60	2,752	28,364
Apr	21.12	-0.01	21.38	21.12	2,119	12,045
May	20.64	-	20.78	20.64	1,487	5,822
Jun	20.34	+0.04	20.33	20.24	657	11,815
Total					38,771	[illegible]

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Dec	71.20	-0.04	72.05	70.80	28,027	15,891
Jan	70.75	-0.18	71.60	70.25	18,536	43,510
Feb	68.55	+0.07	69.95	68.64	4,191	13,123
Mar	65.80	+0.17	66.75	65.35	1,482	11,362
Apr	61.90	+0.12	62.25	61.50	489	8,010
May	59.20	+0.22	59.70	59.00	335	3,652
Total					55,267	120,677

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	216.25	-0.75	218.25	216.25	6,760	20,444
Jan	214.00	-0.50	215.75	213.75	2,486	29,218
Feb	207.25	-	208.25	207.25	847	10,421
Mar	193.25	+0.25	199.50	193.00	425	7,202
Apr	190.75	+0.50	191.00	190.50	469	3,251
May	185.50	+0.75	-	-	-	2,671
Total					15,980	88,531

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	3.480	-0.101	3.590	3.440	9,702	41,464
Feb	3.045	-0.072	3.130	3.000	4,558	21,361
Mar	2.650	-0.040	2.730	2.650	1,438	13,827
Apr	2.380	-0.015	2.370	2.330	849	7,521
May	2.265	-0.020	2.290	2.260	1,074	8,550
Jun	2.225	-0.030	2.269	2.220	485	5,129
Total					23,724	130,626

■ UNLEADED GASOLINE NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Dec	69.60	+0.59	70.00	68.50	14,795	9,287
Jan	65.30	+0.14	65.90	64.80	16,030	25,528
Feb	64.50	+0.19	64.75	64.10	2,288	10,157
Mar	64.35	+0.10	64.65	64.00	2,582	5,807
Apr	65.90	-	66.30	65.90	862	3,740
May	65.50	+0.15	65.65	65.50	305	1,587
Total					31,308	58,008

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	95.00	-0.90	95.40	94.90	147	1,781
Mar	96.90	-1.00	97.25	96.80	177	2,074
May	98.10	-0.80	98.10	98.00	143	2,196
Jul	99.60	-0.80	99.80	99.50	22	318
Sep	93.30	-0.20	-	-	-	35
Nov	95.30	-0.20	95.30	95.00	65	667
Total					554	7,088

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	400.50	-12.5	414.00	400.00	5,664	6,287
Mar	384.25	-6.25	391.00	383.50	10,442	30,894
May	364.75	-1	369.00	364.50	1,805	4,813
Jul	342.25	-0.5	344.50	341.50	1,483	14,325
Sep	347.00	+1	347.50	347.00	3	395
Dec	358.00	+2	358.00	357.00	8	185
Total					19,197	56,894

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	272.00	-1.25	274.00	271.75	37,558	51,362
Mar	273.50	-0.75	275.00	273.25	31,348	123,140
May	277.25	-0.25	278.75	277.00	5,701	46,881
Jul	280.25	-0.5	281.50	279.75	4,280	44,724
Sep	273.25	+0.25	275.50	273.25	411	5,469
Dec	271.25	-0.5	272.25	270.00	2,411	33,294
Total					81,828	308,714

■ BARLEY LIFFE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	92.50	-0.50	92.75	92.50	44	641
Mar	93.60	-0.50	-	-	-	293
May	94.85	-0.25	94.85	94.85	15	122
Sep	92.25	-0.25	-	-	-	2
Nov	94.25	-0.25	94.25	94.00	32	127
Total					91	1,188

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	718.25	+2.25	716.50	712.50	24,637	67,811
Mar	710.75	+0.75	712.50	708.50	6,368	35,674
May	708.00	-0.25	708.00	705.00	2,720	20,388
Jul	707.00	-0.75	710.00	705.75	3,662	18,711
Aug	704.50	+0.5	704.75	703.50	134	2,480
Sep	686.00	-1.75	687.00	686.00	125	421
Total					38,268	158,138

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	23.23	-0.06	23.38	23.20	10,181	14,671
Jan	23.58	-0.02	23.69	23.51	10,458	26,583
Mar	23.98	+0.03	24.05	23.87	3,329	20,061
May	24.22	+0.01	24.30	24.16	1,872	12,621
Jul	24.55	+0.07	24.55	24.42	664	7,308
Aug	24.50	+0.13	24.75	24.50	112	1,399
Total					26,727	88,348

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	238.6	+1.1	238.5	237.0	8,453	17,949
Jan	228.6	+0.6	229.8	228.5	5,118	24,710
Mar	223.2	+0.1	224.3	222.5	3,468	21,718
May	219.1	-0.1	220.0	218.5	2,099	11,281
Jul	218.5	-0.4	218.5	217.5	1,547	8,150
Aug	216.5	-1.5	218.5	216.5	250	1,967
Total					22,885	90,364

■ POTATOES LIFFE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	55.0	-	-	-	-	-
Apr	65.0	+0.5	75.0	65.0	1	1,257
May	70.0	+0.5	-	-	-	20
Nov	80.0	+0.5	-	-	-	22
Jan	117.0	-	-	-	-	-
Total					1	1,321

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	1386	+1	1400	1376	23	510
Jan	1348	-2	1350	1335	24	1,576
Apr	1358	-2	1375	1355	22	842
Jul	1180	-	1180	1180	2	306
Oct	1255	+5	1270	1270	18	60
Jan	1285	+5	-	-	-	51
Total					87	4,069

	Close	Prev
BFI	1428	1434

SOFTS

■ COCOA LIFFE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	901	+1	905	898	3,281	6,811
Mar	940	+3	943	937	3,861	49,751
May	958	+5	961	956	950	14,926
Jul	972	+4	976	971	308	12,288
Sep	986	+5	991	981	385	7,254
Dec	995	-1	1001	999	114	5,986
Total					12,675	99,270

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	1371	-	1373	1368	271	280
Mar	1416	-	1425	1409	10,601	41,613
May	1436	+3	1441	1427	1,083	10,117
Jul	1452	-	1456	1448	381	7,221
Sep	1475	+8	1475	1470	294	6,557
Dec	1495	+9	1482	1482	44	885
Total					12,876	75,871

■ COCOA (ICCO) (SDR's/tonne)

Nov 26	Price	Prev. day
Daily	1040.11	1024.58

■ COFFEE LIFFE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	1420	-31	1460	1425	75	658
Jan	1390	-16	1410	1390	2,459	18,256
Mar	1340	-15	1360	1340	2,263	10,324
May	1325	-13	1344	1325	183	5,330
Jul	1325	-7	1343	1325	118	891
Sep	1325	-5	1345	1345	6	377
Total					5,104	35,408

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	118.25	-0.90	118.00	116.00	235	1,479
Mar	107.75	-0.35	108.70	107.50	3,980	18,771
May	105.65	-0.15	106.10	105.25	496	5,100
Jul	102.65	-1.35	105.00	102.50	121	1,260
Sep	102.50	-1.10	103.65	103.50	16	861
Dec	101.50	-0.60	102.50	102.50	5	422
Total					4,834	29,288

■ COFFEE (ICO) (US cents/pound)

Nov 26	Price	Prev. day
Comp. daily	94.36	95.16
15 day average	97.20	97.43

■ WHITE SUGAR LIFFE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	303.7	-0.2	304.2	302.5	646	15,417
May	304.1	-0.5	304.8	303.5	81	4,704
Aug	305.5	+0.3	305.5	305.2	11	2,424
Oct	300.5	+0.3	300.5	300.1	82	1,387
Dec	301.7	-0.1	-	-	-	551
Mar	303.5	-0.8	-	-	-	373
Total					800	24,881

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	10.88	-0.09	10.74	10.66	10,580	79,079
May	10.73	-0.06	10.78	10.72	1,565	30,500
Jul	10.66	-0.04	10.70	10.65	1,464	20,300
Oct	10.70	-0.03	10.74	10.69	932	12,753
Mar	10.71	-	10.71	10.70	172	3,698
May	10.71	-	-	-	5	826
Total					14,672	147,868

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	74.80	+1.03	75.00	74.00	140	1,306
Mar	76.07	+0.92	76.13	75.55	2,957	25,147
May	77.25	+0.95	77.30	76.75	556	10,046
Jul	77.95	+0.80	78.00	77.50	346	7,083
Oct	77.80	+0.55	-	-	61	1,267
Dec	77.30	+0.25	77.35	77.10	122	7,087
Total					4,187	52,528

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	97.15	+0.15	97.20	95.00	1,296	13,780
Mar	100.50	+0.60	100.60	98.05	479	7,530
May	103.20	+0.85	103.40	101.00	111	2,584
Jul	105.45	+1.40	104.50	104.50	3	632
Sep	107.45	+1.40	-	-	-	252
Nov	108.95	+1.35	-	-	-	53
Total					1,889	24,874

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Dec	66.800	+0.700	66.825	66.200	5,294	24,802
Feb	63.825	+0.700	63.800	62.925	4,324	25,881
Apr	64.850	+0.225	64.875	64.500	1,867	15,559
Jun	63.125	+0.275	63.150	62.700	726	7,613
Aug	62.775	+0.200	62.800	62.450	162	7,445
Oct	65.325	+0.200	65.400	65.050	271	4,999
Total					12,706	88,270

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Dec	59.225	+0.175	59.275	58.775	3,640	11,033
Feb	78.300	+0.700	78.350	77.600	3,207	11,943
Apr	73.700	+0.550	73.825	73.050	630	4,905
Jun	78.250	+0.400	76.275	75.800	496	4,423
Jul	73.975	+0.100	73.300	72.800	98	1,400
Aug	69.000	-0.725	69.700	68.925	48	829
Total					8,127	35,416

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Feb	79.375	+1.975	79.475	78.000	1,203	4,315
Mar	78.725	+2.225	78.800	77.400	80	787
May	78.200	+1.750	78.400	77.000	41	520
Jul	78.750	+1.275	78.750	77.300	10	348
Aug	74.500	+1.275	74.500	73.250	1	57
Total					1,335	6,024

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Jan	Apr	Jan	Apr
1500	61	104	24	45
1525	46	89	34	56
1575	34	77	47	67
■ COPPER (Grade A) LME	Jan	Apr	Jan	Apr
2200	121	105	78	184
2250	96	89	102	226
2300	75	78	130	260
■ COFFEE LIFFE	Jan	Mar	Jan	Mar
1400	32	41	42	101
1450	14	27	74	137
1500	7	17	117	177
■ COCOA LIFFE	Mar	May	Mar	May
900	59	73	13	15
925	37	56	22	23
950	25	43	35	35
■ BRENT CRUDE IPE	Jan	Feb	Jan	Feb
2250	-	-	-	-
2300	50	-	69	-
2350	-	-	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$20.89-0.97w	+0.005
Brent Blend (dated)	$23.12-3.14	+0.36
Brent Blend (Jan)	$22.77-2.79	+0.08
W.T.I.	$23.72-3.74w	+0.155

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$220-222	-4
Gas Oil	$217-219	-1
Heavy Fuel Oil	$119-121	
Naphtha	$224-226	
Jet fuel	$248-250	+1
Diesel	$232-234	-2

■ NATURAL GAS (Pence/therm)

Bacton (Dec)	20.30-20.70	-0.25

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

Gold (per troy oz)♣	$373.80	-0.20
Silver (per troy oz)♣	474.50c	
Platinum (per troy oz.)	$376.35	-2.15
Palladium (per troy oz.)	$114.50	-1.00
Copper	114.0c	+2.0
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	15.26r	+0.24
Tin (New York)	286.50	+2.0
Cattle (live weight)	110.60p	+3.11*
Sheep (live weight)	137.02p	+5.98*
Pigs (live weight)†	95.81p	+7.61*
Lon. day sugar (raw)	$266.20	+1.50
Lon. day sugar (wte)	$308.70	-0.80
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	127.0	
Wheat (US Dark North)	Unq	
Rubber (Jan)♥	79.50p	-0.25
Rubber (Feb)♥	78.50p	-0.25
Rubber (KL RSS No1)	321.5z	
Coconut Oil (Phil)§	$785.0y	-10.0
Palm Oil (Malay.)§	557.5x	
Copra (Phil)§	495.0	+2.5
Soyabeans (US)	182.0z	
Cotton Outlook'A' index	77.65	+0.75
Wooltops (64s Super)	389p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Jan z Nov/Dec x Dec/Jan. † London Physical. § CIF Rotterdam. ♥ Bullion market close. * Change on week. † Based on 4,418 head of pigs sold.

FUTURES DATA
All futures data supplied by CMS.

Nuts and Seeds Prices from Kenkko US$ a tonne. Iranian pistachios 28/30; raw (in shell) naturally opened (round): new crop prices at 3,850 CFR. US almonds (shelled): 25/27 SSR rising at 5,800 FAS California. Dec shipment; extreme shortage of nonpareil variety. US walnuts LHP 20%: 6,000 up sharply FAS California; in-shell Hartley very difficult, price idea 2,550 FAS. Turkish hazelnuts standard No 1, unstable with Lira fluctuations, moving up: price 3,800-4,000 CFR. Turkish apricots number one, sold out; number two price up at 3,700 CFR; number four at 3,300. Indian cashews raw: W-320, 5,900 CFR EMP up slightly. Spot goods firming at 5,850 FCA Rotterdam. US pecans fancy junior mammoth halves, crop 1996 at 4,950 FOB; very active. Coconut DFR at 1,500 for top Philippine goods, shipments from March, stable.

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Nov 27	Nov 26	month ago	year ago
1877.0	1873.8	1858.3	2170.5

■ CRB Futures (Base: 1967 = 100)

Nov 26	Nov 25	month ago	year ago
244.86	245.31		

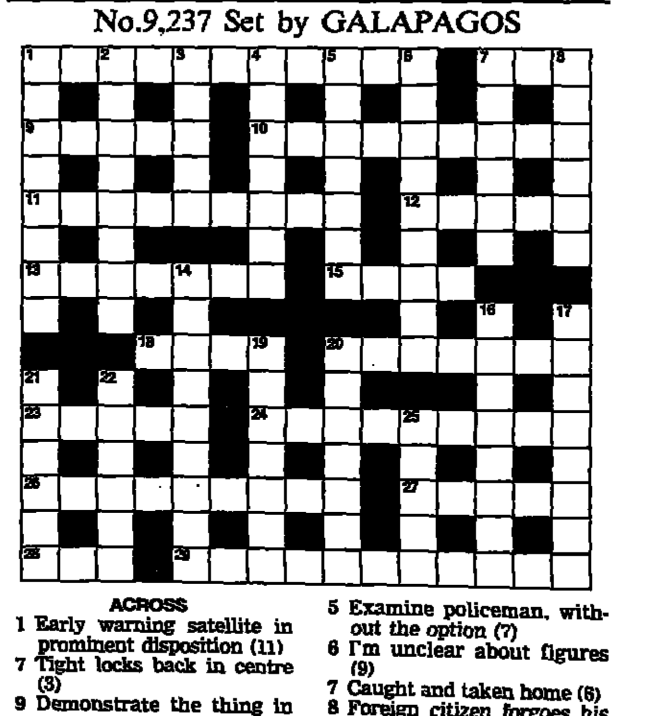
■ GSCI Spot (Base: 1970 = 100)

Nov 26	Nov 25	month ago	year ago
220.01	218.26	211.44	186.70

JOTTER PAD

CROSSWORD

No.9,237 Set by GALAPAGOS



ACROSS
1 Early warning satellite in prominent disposition (11)
7 Tight locks back in centre (3)
9 Demonstrate the thing in error (3,2)
10 Cook game and store energy here (9)
11 Hear score rendered for, say, £1,050 (5-4)
12 Steward always returns around point (5)
13 Not looking so well, returns to home counties with new attack (7)
15 Fold trimmed back by ruler (4)
18 Stepped back in Ecuador town (4)
20 See Lear break free (7)
23 Last meal, not first, is a stimulant (5)
24 Pupils in despair, broken and twisted (9)
26 Second rate actors take in street performance; a seedy one? (9)
27 Unadulterated oriental paste (5)
28 Listener in time warp (3)
29 Considered unit of French internet badly treated (11)

DOWN
1 Noted traveller wears cape on job (4-4)
2 Tiny reel is unwound completely (8)
3 Lightweight cat? (5)
4 English rating's put out; you'll get no thanks from him (7)
5 Examine policeman, without the option (7)
6 I'm unclear about figures (9)
7 Caught and taken home (6)
8 Foreign citizen forgoes his first meal (6)
14 Carriage returns to high ground for game (9)
16 Hot spot for doctor on first call, say (8)
17 Point after departed to encourage regeneration (8)
19 Remote girl chap takes to first (7)
20 Dig in again to terrine's ingredients (7)
21 Low type, giving in, leaves chum bleeding (6)
22 Outcry about paramour losing heart (6)
25 Flower, sacred to a Greek (5)

Solution 9,236

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

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LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

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Global Asset Management - Contd.

Jardine Fleming Unit Trusts Ltd - Contd.

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Allied Domecq		449	-½	558	419	4,585	8.9	12.9
Bulmer (HP)		542½	+8½	625	477	288.4	3.0	18.2
Burn St Dist		71	+1½	145	67½	42.1	8.0	75.5
Glenmorangie A		825	+30	830	615	95.1	1.9	22.4
Grand Met		465	-3½	499	411	9,774	4.1	19.7
Guinness		462	-6½	483	430	8,728	4.2	14.0
Highland		337½	+4	378	315	449.9	3.1	16.0
5¼pc Cnv Bds		97¾	—	101½	94¾	–	–	–
Kirin Y		[illegible]	-7¾	[illegible]	[illegible]	8,882	1.0	23.6
Matthew Clark		294	+½	803	267½	269.2	10.2	14.0
Merrydown		93½	-5	141	92½	18.2	6.3	12.3
Seagram S		[illegible]	+½	[illegible]	[illegible]	6,867	1.2	–

BANKS, MERCHANT

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Baring 8pc Cm 2nd Pf		50½	—	50½	50½	6.31	19.8	–
Cater Allen		382½	—	485	370	124.7	9.8	11.3
Close Bros		328½	—	392	307½	381.7	3.9	13.1
Gerrard & Nat		272	-2½	472	260	132.0	10.6	11.1
Hambros		242½	—	287½	194	420.5	3.9	20.5
7½pc Cv Pf		118	—	119	98	141.7	8.8	–
King & Shaxson		183½	—	197	135	49.4	8.1	15.9
Leopold J		405	—	405	405	24.8	5.3	16.8
Rea Brothers		62½	—	67	44	30.2	2.0	24.6
Schroders		1472½	+17½	1472½	1185	2,223	1.5	16.7
NV		1227½	+7½	1240	890	556.0	1.8	14.1
Singer & Fried		126	-1½	135	99½	200.6	4.2	8.3

[illegible]

CHEMICALS - Cont.

[illegible]

BANKS, RETAIL

[illegible]

DISTRIBUTORS

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING & CONSTRUCTION

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Cont.

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

FOOD PRODUCERS - Cont.

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS

[illegible]

HOUSEHOLD GOODS - Cont.

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

	Notes	Price	+ or –	52 week high	low	Yld Gr's	NAV	Dis or Pm(-)
[illegible]								

LIFE ASSURANCE

MEDIA

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER , PACKAGING & PRINTING

PAPER , PACKAGING & PRINTING - Cont.

PHARMACEUTICALS

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, FOOD - Cont.

RETAILERS, GENERAL

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	+ or –	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		£26¾	—	*£34½	£20½	1,624	3.5	Φ
Barlow		852	+¼	£10½	854	1,110	2.5	Φ
Gold Flds Prop S		129½	—	179	120	12.6	6.4	10.4
NK Props.		62	—	88	60	2.48	13.5	–
SASOL		645	—	716	489	3,777	1.6	–
SA Brews		£15¾	+¾	£26½	£14½	4,586	2.1	Φ
Standard Bank		£22¼	+¾	£32¼	£21½	2,701	1.5	21.0
Tiger Oats		790	—	1276	776	1,186	2.2	Φ
Tongaat-Hulett		717½d	+7	1247	676¼	676.9	2.4	Φ

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings'/share.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm –) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Φ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- USM: not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.

z Dividend yield includes a special payment. ... Estimated annualised yield, p/e based on latest annual earnings. ... Yield based on prospectus or other official estimates for 1995-96. ... Dividend is paid in whole or part as a ...

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xt ex capital distribution.

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The share prices printed on these pages are also

LONDON STOCK EXCHANGE

Weak gilts and Wall St leave shares lower

MARKETS REPORT

By Steve Thompson, UK Stock Market Editor

An overwhelming sense of post-Budget anti-climax permeated the stock market yesterday, with stock prices briefly flaring up and then subsiding as dealers struggled for good reasons to chase the market any further.

And a deteriorating trend on Wall Street yesterday did nothing to bolster sentiment in London. The Dow Jones Industrial Average was down well over 30 points as trading in London ceased.

The FTSE 100 index settled 19.2 off at 4,049.2, while the FTSE 250 gave up 11.4 to 4,412.0. The SmallCap fell 5.0 to 2,162.7.

The consensus view around the City's trading desks was that the market had done much of its upside work in the two pre-Budget sessions when the FTSE 100 rose over 100 points, or 2.5 per cent.

That rise, it was suggested, left very little potential in the market, especially with Wall Street unlikely to give European markets much of a tow for the rest of the week, which is disrupted by today's Thanksgiving Day break. The US bond market closed at lunchtime yesterday and will do so again on Friday along with Wall Street.

It was the latter's erratic performance on Tuesday that dictated the course of the FTSE 100 during the Budget speech. The Dow Jones Industrial Average gave a turbulent performance overnight, with an early 30-point rise replaced by a 50-point fall and an eventual closing loss of 19 points.

There was a flurry of buying interest in the market at the outset, but it quickly petered out to be followed by profit-taking.

Much of the rest of the session was taken up with sorting out the winners and losers arising from a closer scrutiny of the chancellor's Budget proposals.

Equities were also unsettled by a lacklustre showing by the gilts market, where some observers continued to take the view that further domestic interest rate rises are on the cards in the short term.

Mr Andrew Cates, an economist at UBS, said: "We are pencilling in another quarter point rise in base rates early in the new year, though there is some chance it could come straight after the chancellor/governor meeting on December 11."

On the positive side, a late burst of takeover speculation drove SmithKline sharply higher, while T & N's move to cap its asbestos liability by taking out an insurance policy, was greeted enthusiastically by the market, which quickly moved to upgrade the shares.

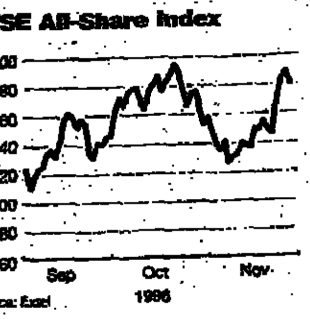
There was bleak news for the building materials arena, however, as Redland warned shareholders at its egm, of flagging sales in continental Europe and the impact of the strength of sterling.

The news took almost 8 per cent off Redland shares and damaged RMC and Pilkington as well.

Turnover in the equity market at the 6pm count was a disappointing 720.6m shares, shared equally between the FTSE 100 and other stocks.

Customer business on Budget day was £1.28bn.

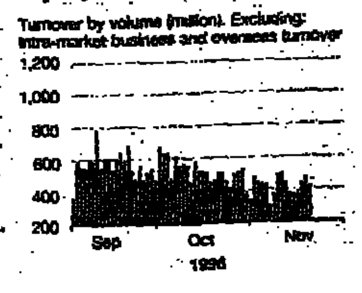
FTSE All-Share Index



Source: Datastream

Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Indices and ratios

FTSE 100	4049.2	-19.2	FT 30	2820.4	-12.6
FTSE 250	4412.0	-11.4	FTSE Non-Fins p/e	18.01	18.06
FTSE 350	2009.1	-8.6	FTSE100 Fut Dec	4063.0	-23.0
FTSE All-Share	1980.62	-8.21	10 yr Gilt yield	7.48	7.40
FTSE All-Share yield	3.79	3.77	Long gilt/equity yld ratio	2.02	2.02

Best performing sectors

1 Engineering: Vehicles .... +1.1
2 Tobacco .... +1.0
3 Health Care .... +0.8
4 Banks: Merchant .... +0.4
5 Pharmaceuticals .... +0.4

Worst performing sectors

1 Gas Distribution .... -4.1
2 Building Matls .... -1.8
3 Breweries: Pubs & Rest .... -1.2
4 Water .... -1.1
5 Retailers: General .... -1.0

Roche hint lifts S-Kline

By Peter John, Joel Kibazo and Lisa Wood

A flash of activity in the last 15 minutes of UK trading saw SmithKline Beecham shoot to the top of the Footsie with a new twist being given to old Roche stories.

Roche has always been seen as having Zeneca in its sights but yesterday's spin was that it had raised a line of credit of up to SFr50bn in the US in order to make a play for either SmithKline or Astra of Sweden.

On one hand the Swiss giant is keen to make up for being knocked off its higher perch by the formation of Novartis, from two Swiss pharmaceutical companies, earlier this year. On the other, Roche does not like hostile bids and SmithKline said it was not aware of any interest.

However, one analyst summed up the general view when he said: "You can't refute it categorically. We have had some amazing deals over the past two or three years."

Another commented: "Roche has never written a cheque for more than $5.3bn and SmithKline would set them back $50bn."

SmithKline shares, which had been up against the market and sector trend earlier, suddenly moved forward just before the close to end a net 29½ higher at 808½p. Roche fell SFr140 to SFr9,830.

Motor components and specialist engineering group T&N cruised into pole position in the FTSE 250 as the market re-rated the stock following news that the company is to limit its potential liability to asbestos-related disease claims through an innovative insurance scheme.

After months of speculation, T&N confirmed it will attempt to cap its asbestos liabilities through a £373m provision and £500m extra insurance cover.

The shares soared in brisk trading, gaining more than 22 per cent as they jumped 32 to 176½p. Volume was a hefty 11m by the close.

Mr Guy Hewett at Charterhouse Tilney was among those cheered by the news and he upgraded his recommendation on the stock from "hold" to "buy", saying: "This deal finally reduces a substantial part of the asbestos worries." He set a 200p price target for the stock.

Long-term bull Mr Robert Speed at Henderson Crosthwaite also agreed the stock would advance to 200p in the short term but believed it had the potential to go much higher. "This is a company with world class businesses which can now move ahead because the asbestos cloud has been blown away."

British Gas took yet another knock yesterday as one broker estimated that Budget changes will knock cashflow and earnings.

HSBC James Capel took a close look at the chancellor of the exchequer's decision to reduce allowances on long-term capital assets. The broker calculated that with 40 per cent of future capital expenditure on long-term assets, the blow to earnings could be up to £50m.

While retaining its buy recommendation Capel told clients that in the short term there was an opportunity to take profits. The shares, already suffering from disappointment that there was no big corporate activity in the offing after Dutch/Shell ruled out a bid for the company, and hit by the overhang of regulatory concern, dropped 10 to 221p with 18m shares changing hands.

Redland fell 30 to 364½p, the heaviest fall on the FTSE 100, following the group's warning that fourth quarter volumes in Europe were behind expectations and that the strength of sterling against the DMark was having an adverse affect on profits. Analysts said they were preparing to cut 1996 full year forecasts.

RMC, which is also heavily exposed to Germany, fell 22 to 971½.

Bass, whose Hooper's Hooch is the market leader in alcoholic lemonades, weakened 20 to 790½p as the market digested the substantial increase in duty on "alcopops." Analysts said that if Bass absorbed the duty increase, which will add about 8p to the price of a bottle, it could cost it about £5m a year. However, the strong speculation was that Bass would pass the increase on to consumers. Analysts also said there was some profit-taking in the group at a time of nervousness about the conditions the government might set as a pre-condition for Bass to acquire the majority of Carlsberg-Tetley.

Merrydown, which markets Two Dogs, another leading "alcopop" brand, weakened 5 to 93½p.

Whitbread slipped 8½ to 746½p after announcing it had bought the BrightReasons restaurant group for £46m in cash with a further potential payment payable on the sale of Pizza Piazza.

One analyst said he believed it was a good deal by the group, which is strengthening its restaurants businesses, but there were some concerns in the market that Whitbread might have paid too much.

The reduced tax on spirits helped a number of Scotch whisky producers including Glenmorangie, which climbed 20 to 835p and Highland Distilleries which firmed 4 to 397½p.

Electrical retailers were affected by the Budget's increased tax on insurance policies sold with goods. Dixons softened 3 to 547½p, Thorn slipped 10½ to 273¼ and Granada weakened 10½ to 868p.

Analysts were divided on the full implications of the move. ABN-Amro Hoare Govett moved Dixons from "under-valued" to "sell" while BZW and UBS kept it on the "buy" list.

Bargain hunters were seen in British Steel which has fallen back in recent sessions on concerns about the strength of sterling against the D-Mark. The shares yesterday moved against the market trend closing 1½ ahead at 168½p.

Channel tunnel operator Eurotunnel reversed the recent poor sentiment and gained 5¼ to 81p on reports that the part of the tunnel not damaged by the recent fire may open within the next few days.

BAT Industries gained 5½ to 466½p on news that a vocal anti-smoking advocate is to resign as US Food and Drug Administration commissioner once a successor is named.

BOC rose 8½ to 900p after three brokers made positive comments about the stock following a meeting with senior executives of the company, dealers said. SBC Warburg, Kleinwort Benson and Merrill Lynch reiterated their positive stances on the company.

EMI extended its recent advance amid bid talk to close 12 higher at 1372½p.

Standard Chartered improved 9½ to 686p after the Anglo-Asian banking group announced a strategic relationship with Westpac Banking Corporation.

FT 30 INDEX

	Nov 27	Nov 26	Nov 25	Nov 22	Nov 21	Yr ago	High	Low
FT 30	2820.4	2833.0	2828.5	2810.5	2775.0	2664.3	2865.2	2658.5
Ord. div. yield	4.02	4.01	4.02	4.05	4.11	4.04	4.22	3.76
P/E ratio net	17.16	17.21	17.14	17.04	16.79	15.83	17.48	15.80
P/E ratio nil	17.00	17.05	16.98	16.88	16.63	15.74	17.30	15.71

FT 30 since compilation: high 2865.2 19/04/96; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2833.4	2845.2	2837.9	2832.1	2824.4	2824.4	2825.8	2817.7	2817.8	2847.5	2811.2

	Nov 27	Nov 26	Nov 25	Nov 22	Nov 21	Yr ago
SEAQ bargains	37,770	44,190	47,812	41,129	35,142	30,486
Equity turnover (£m)†	-	1278.6	1082.8	1507	1046.0	1954.8
Equity bargains†	-	29,325	32,041	27,886	23,341	36,214
Shares traded (mil)†	-	501.8	418.7	477.4	436.7	746.4

†Excluding intra-market business and overseas turnover.

	Nov 27	Nov 26	Nov 25	Nov 22	Nov 21	Yr ago	High	Low
FTSE AIM	1036.40	1037.50	1029.00	1024.90	1023.80	-	1140.40	965.70

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London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	411	Total Highs	86	Total contracts	48,569
Total Falls	778	Total Lows	103	Calls	22,116
Same	1401			Puts	24,453

Nov 27 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	4090.0	4063.0	-35.0	4105.0	4047.0	17864	56636
Mar	4120.0	4093.5	-34.5	4120.0	4071.0	2645	6646
Jun	4128.0	4103.0	-33.0	4128.0	4122.0	175	1813

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	4433.0	4428.0	-8.0	4433.0	4428.0	130	4086
Mar	-	4500.0	-8.0	-	-	0	1350

■ FTSE 100 INDEX OPTION (LIFFE) (*4048) £10 per full index point

[illegible]

Calls 10,469 Puts 7,832

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	3875		3925		3975		4025		4075		4125		4175		4225	
Dec	193	6	146½	9½	103	15½	65½	27½	35½	47	[illegible]					
Jan	216½	15½	172½	21½	131½	30½	94½	43½	62½	61½	[illegible]					
Feb	244½	28½	203½	37½	163½	47½	126½	60½	94	78	[illegible]					
Mar	246	41½	207½	52	171½	65	138	80½	108	100	[illegible]					
Jun†			265½	93½			201	126								

Calls 3,078 Puts 9,272 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m)	1996 High	1996 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
[illegible]						105½	-2	bZ2.49	-	3.0	13.6
						4	-¼	-	-	-	45.7
						4		-	-	-	13.2
						191½	+12	W3.5	1.9	2.3	19.3
						157½		L1.6	3.0	1.3	27.9
						175½	+1	L4.2	0.3	3.0	55.6
						6		-	-	-	-
						162½		-	-	-	-
						293½	+½	-	-	-	31.9
						97½		W3.5	1.8	4.5	17.4
						595		-	-	-	-
						125		-	-	-	-
						88½	-3	-	-	-	-
						121½	-2	-	-	-	-
						97½	-½	-	-	-	-
						122½		-	-	-	-
						89½		-	-	-	-
						225½		-	-	-	13.2
						11½		K0.2	-	2.2	-
						127½	-2	RW3.6	2.4	3.5	13.0
						135½	+3	F4.6	1.9	4.2	12.0
						240½	+2	Z1.0	6.1	0.5	24.3
						138½		R3.0	2.4	2.7	13.8
						110½		-	-	-	-
						9½		-	-	-	-
						184½		-	-	-	-
						3¾		-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

	Nov 26	% chg on day	Nov 25	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (32)	1674.73	+0.4	1668.09	1836.83	1.64	-	2528.73	1836.83
■ Regional Indices								
Africa (14)	2288.64	-2.5	2348.10	2372.41	3.41	32.43	3553.86	2288.64
Australasia (6)	2020.53	-3.6	2085.80	2275.37	2.84	19.83	2927.34	2005.75
North America (12)	1742.03	+2.2	1703.92	1625.97	0.75	85.91	2188.39	1625.97

 Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Nov 27	Day's chge%	Nov 26	Nov 25	Nov 22	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	4049.2	-0.5	4068.4	4054.6	4018.7	3655.5	3.92	2.04	15.68	162.64	1689.33
FTSE 250	4412.0	-0.3	4423.4	4422.3	4411.3	3951.0	3.55	1.49	23.61	165.93	1801.86
FTSE 250 ex IT	4449.9	-0.2	4460.4	4461.9	4451.8	3969.5	3.64	1.52	22.64	174.13	1821.41
FTSE 350	2009.1	-0.4	2017.7	2012.2	1997.1	1810.6	3.84	1.93	16.89	79.68	1712.21
FTSE 350 Higher Yield	1920.1	-0.6	1932.4	1921.4	1903.9	1814.2	5.10	1.60	13.58	99.58	1378.12
FTSE 350 Lower Yield	2105.5	-0.2	2110.5	2110.5	2097.7	1811.5	2.70	2.14	21.65	60.27	1477.21
FTSE SmallCap	2162.67	-0.2	2167.73	2166.17	2163.91	1947.06	3.18	1.58	24.81	65.30	1802.27
FTSE SmallCap ex IT	2162.62	-0.2	2167.76	2168.96	2167.31	1928.50	3.39	1.65	22.35	69.14	1815.32
FTSE All-Share	1980.62	-0.4	1988.83	1983.72	1969.77	1784.61	3.79	1.91	17.30	77.13	1713.56

■ FTSE Actuaries Industry Sectors

	Nov 27	Day's chge%	Nov 26	Nov 25	Nov 22	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(23)	3882.57	-0.7	3911.61	3907.06	3919.99	3104.34	3.67	1.71	19.92	142.73	1701.79
12 Extractive Industries(6)	4155.53	-0.5	4176.09	4212.70	4214.48	4269.07	3.91	2.66	12.04	162.00	1238.55
15 Oil, Integrated(3)	4011.26	-0.8	4043.91	4089.05	4055.68	3121.19	3.84	1.55	20.94	154.36	1806.64
16 Oil Exploration & Prod(14)	2949.05	-0.5	2964.48	2919.37	2919.98	1939.40	1.79	1.72	40.63	52.98	1787.49
20 GEN INDUSTRIALS(275)	1988.71	-0.3	1995.00	1991.92	1985.77	1958.81	4.31	1.68	17.31	80.14	1109.95
21 Building & Construction(34)	1162.90	-0.2	1165.75	1165.85	1164.53	1004.38	3.63	1.47	23.48	39.95	991.25
22 Building Matls & Merchs(29)	1788.21	-1.8	1821.21	1824.66	1835.04	1787.48	4.33	1.40	20.68	75.00	922.73
23 Chemicals(25)	2382.71	-0.2	2387.31	2374.56	2390.63	2354.73	4.33	1.44	20.07	98.47	1154.54
24 Diversified Industrials(19)	1397.84	-0.3	1402.06	1406.28	1404.52	1777.96	7.26	1.62	10.65	90.05	806.27
25 Electronic & Elect Equip(36)	2307.59	+0.2	2303.77	2280.26	2256.44	2128.32	3.39	1.49	24.79	64.25	1217.01
26 Engineering(71)	2600.12	-0.3	2608.46	2603.11	2586.35	2195.16	3.15	2.28	17.41	78.85	1606.68
27 Engineering, Vehicles(14)	3246.99	+1.1	3210.40	3200.08	3153.18	2543.54	3.32	1.72	21.90	103.02	1713.84
28 Paper, Pckg & Printing(26)	2497.97	.....	2497.76	2507.18	2506.77	2496.72	4.15	1.82	16.58	97.61	1062.60
29 Textiles & Apparel(19)	1084.36	-0.3	1087.51	1096.51	1100.15	1468.42	6.58	1.16	16.39	67.36	684.02
30 CONSUMER GOODS(92)	3810.06	+0.1	3805.44	3787.63	3733.92	3544.27	3.81	1.93	16.99	139.77	1438.08
32 Alcoholic Beverages(8)	2726.35	-1.0	2752.51	2749.93	2715.37	2784.85	4.66	1.70	15.77	104.19	1001.37
33 Food Producers(25)	2663.45	-0.2	2669.44	2654.63	2632.03	2500.72	4.11	1.77	17.21	99.81	1226.67
34 Household Goods(15)	2617.10	-0.3	2623.97	2619.38	2596.89	2599.96	3.90	2.26	14.17	191.20	1055.62
36 Health Care(18)	2001.31	+0.8	1984.72	1976.78	1963.03	1961.63	2.99	1.99	21.01	55.92	1335.05
37 Pharmaceuticals(14)	5927.67	+0.4	5904.84	5867.99	5786.70	4685.74	2.88	2.01	21.51	172.19	2048.27
38 Tobacco(2)	3900.01	+1.0	3861.92	3853.37	3788.11	4692.87	6.65	2.13	8.83	262.07	1004.32
40 SERVICES(252)	2593.56	-0.7	2611.33	2614.14	2600.94	2207.00	2.90	1.96	21.96	79.56	1372.43
41 Distributors(30)	2899.34	.....	2898.08	2901.54	2920.85	2487.98	2.97	2.02	20.83	86.70	1088.28
42 Leisure & Hotels(25)	3199.42	-0.8	3225.97	3219.34	3212.03	2587.43	2.80	1.97	22.66	173.08	1739.69
43 Media(44)	4286.66	-0.2	4295.22	4290.17	4272.82	3583.39	2.14	2.10	27.76	93.50	1569.66
44 Retailers, Food(14)	2047.40	-0.9	2065.43	2068.49	2064.77	1930.55	3.85	2.28	14.24	72.78	1329.96
45 Retailers, General(45)	2092.74	-1.0	2114.55	2128.54	2105.96	1877.51	3.13	2.05	19.48	72.63	1221.89
47 Breweries, Pubs & Rest.(21)	3177.04	-1.2	3216.31	3217.83	3197.83	2765.10	3.28	2.00	19.10	74.44	1543.54
48 Support Services(50)	2703.38	-0.4	2714.63	2701.59	2675.09	1858.44	1.84	2.20	30.92	48.57	1736.47
49 Transport(23)	2598.03	-0.7	2616.86	2620.96	2620.07	2182.36	3.70	1.20	28.11	93.48	1106.71
60 UTILITIES(33)	2468.85	-0.8	2489.33	2502.53	2485.58	2494.59	5.37	1.74	13.37	173.24	1106.28
62 Electricity(12)	2647.37	-0.9	2670.48	2695.00	2704.71	2604.87	6.37	2.18	8.69	435.85	1437.09
64 Gas Distribution(2)	1486.95	-4.1	1550.95	1579.75	1554.15	1653.48	8.06	0.83	18.61	119.71	813.62
66 Telecommunications(8)	2065.46	+0.1	2063.64	2068.78	2040.64	2037.70	4.03	1.51	20.56	54.11	961.15
68 Water(11)	2261.04	-1.1	2287.19	2288.57	2300.62	2121.30	6.29	2.30	8.64	106.78	1285.72
69 NON-FINANCIALS(665)	2066.02	-0.5	2076.40	2074.80	2062.65	1881.49	3.82	1.82	18.01	82.78	1605.21
70 FINANCIALS(104)	3384.67	-0.3	3393.31	3355.14	3311.78	2885.44	3.93	2.36	13.46	126.67	1491.64
71 Banks, Retail(8)	4845.00	-0.2	4858.19	4798.10	4729.32	4090.51	3.75	2.71	12.31	175.98	1619.70
72 Banks, Merchant(6)	3841.59	+0.4	3824.72	3756.18	3744.31	3601.14	2.71	3.04	15.17	100.78	1238.34
73 Insurance(21)	1610.81	-0.6	1619.59	1596.56	1572.12	1436.68	5.21	2.29	10.47	80.56	1247.83
74 Life Assurance(7)	3977.47	-0.2	3987.17	3838.10	3879.95	3459.45	3.91	1.78	17.83	151.01	1691.08
77 Other Financial(20)	2794.11	+0.3	2785.34	2731.50	2696.38	2404.38	3.97	1.77	17.81	99.48	1627.12
79 Property(42)	1695.15	-0.6	1704.77	1711.94	1708.89	1394.69	3.79	1.27	25.97	55.81	1065.60
80 INVESTMENT TRUSTS(126)	3158.34	-0.4	3170.05	3152.85	3139.28	2962.50	2.25	1.14	48.81	65.87	1116.01
89 FTSE All-Share(895)	1980.62	-0.4	1988.83	1983.72	1969.77	1784.61	3.79	1.91	17.30	77.13	1713.56
FTSE Fledgling	1222.52	.....	1222.97	1221.10	1218.60	1096.85	2.84	0.65	68.27	32.66	1297.43
FTSE Fledgling ex IT	1237.23	.....	1237.30	1235.78	1233.18	1098.89	3.03	0.56	72.98	35.54	1314.85

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	4066.2	4083.2	4073.6	4082.2	4055.8	4056.3	4058.7	4049.1	4047.8	4085.0	4040.0
FTSE 250	4420.8	4426.8	4423.5	4423.7	4420.6	4420.1	4420.2	4418.1	4412.4	4427.0	4412.0
FTSE 350	2016.6	2023.9	2019.8	2015.3	2012.5	2012.7	2013.6	2009.7	2008.6	2024.5	2005.9

Time of FTSE 100 Day's high: 8:52 AM Day's low: 3:18 PM. FTSE 100 1996 High: 4079.1 (21/10/96) Low: 3632.3 (15/07/96).

■ FTSE 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	1131.6	1131.9	1131.6	1130.6	1130.6	1130.7	1130.0	1128.4	1128.4	1128.4	1131.8	-5.4
Pharmaceuticls	5826.4	5850.4	5849.8	5833.8	5817.0	5819.5	5824.5	5815.6	5861.8	5855.8	5831.9	+23.9
Water	2252.8	2257.5	2256.9	2258.0	2255.8	2253.1	2254.0	2250.3	2247.3	2247.3	2274.4	-27.1
Banks, Retail	4908.0	4934.3	4931.7	4910.9	4919.4	4916.3	4918.5	4906.7	4903.7	4906.8	4918.2	-11.4

For further information on the FTSE Actuaries Share Indices please contact FTSE International on 0171 448 1810. The FTSE Actuaries Share Indices are calculated in accordance with a standard set of ground rules established by FTSE International in conjunction with the Faculty of Actuaries and the Institute of Actuaries. "FT-SE" and "Footsie" are trade marks of the London Stock Exchange and The Financial Times and are used by FTSE International under licence. † Sector P/E ratios greater than 80 and net covers greater than 30 are not shown. ‡ Values are negative.

FTSE

TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
3i	[illegible]		
ASDA Group†	[illegible]		
Abbey National†	[illegible]		
Albert Fisher	[illegible]		
Allied Domecq†	[illegible]		
Anglian Water	[illegible]		
Argos†	[illegible]		
Arjo Wiggins	[illegible]		
Assoc. Brit. Foods†	[illegible]		
Assoc. Brit. Ports	[illegible]		
BAA†	[illegible]		
BAT Inds.†	[illegible]		
BBA	[illegible]		
BICC	[illegible]		
BOC†	[illegible]		
BP†	[illegible]		
BPB	[illegible]		
BSkyB†	[illegible]		
BT†	[illegible]		
BTR†	[illegible]		
Bank of Scotland†	[illegible]		
Barclays†	[illegible]		
Bass†	[illegible]		
Blue Circle†	[illegible]		
Booker	[illegible]		
Boots†	[illegible]		
Britannic	[illegible]		
Brit. Aerospace†	[illegible]		
British Airways†	[illegible]		
British Biotech	[illegible]		
British Energy	[illegible]		
British Gas†	[illegible]		
British Land	[illegible]		
British Steel†	[illegible]		
Bunzl	[illegible]		
Burmah Castrol†	[illegible]		
Burton†	[illegible]		
Cable & Wireless†	[illegible]		
Cadbury Schweppes†	[illegible]		
Caradon	[illegible]		
Carlton Comms.†	[illegible]		
Chubb	[illegible]		
Coats Viyella	[illegible]		
Comm. Union†	[illegible]		
Compass	[illegible]		
Cookson	[illegible]		
Courtaulds†	[illegible]		
Dalgety	[illegible]		
De La Rue	[illegible]		
Dixons†	[illegible]		
EMI†	[illegible]		
East Midland Elec.	[illegible]		
Electrocomponents	[illegible]		
Eng China Clays	[illegible]		
Enterprise Oil†	[illegible]		
FKI	[illegible]		
Foreign & Col. I.T.	[illegible]		
Gen. Accident†	[illegible]		
General Elec.†	[illegible]		
Glaxo Wellcome†	[illegible]		
Glynwed	[illegible]		
Granada†	[illegible]		
Grand Met.†	[illegible]		
GUS†	[illegible]		
Greenalls	[illegible]		
GRE†	[illegible]		
GKN†	[illegible]		
Guinness†	[illegible]		
HSBC (75p shares)†	[illegible]		
Hammerson	[illegible]		
Hanson†	[illegible]		
Harrisons Crosfield	[illegible]		
Hays	[illegible]		
Hillsdown	[illegible]		
Hyder	[illegible]		
IMI	[illegible]		
ICI†	[illegible]		
Imperial Tobacco†	[illegible]		
Inchcape	[illegible]		
Johnson Matthey	[illegible]		
Kingfisher†	[illegible]		
Kwik Save	[illegible]		
Ladbroke†	[illegible]		
Land Securities†	[illegible]		
Laporte	[illegible]		
Legal & General†	[illegible]		
Lloyds Abbey	[illegible]		
Lloyds TSB†	[illegible]		
LASMO†	[illegible]		
London Elect.	[illegible]		
Lonrho	[illegible]		
LucasVarity†	[illegible]		
MEPC	[illegible]		
MFI	[illegible]		
Marks & Spencer†	[illegible]		
Mercury Asset Man.	[illegible]		
Morrison (Wm.)	[illegible]		
NFC	[illegible]		
NatWest Bank†	[illegible]		
National Grid†	[illegible]		
National Power†	[illegible]		
Next†	[illegible]		
Northern Elec.	[illegible]		
Northern Foods	[illegible]		
Orange†	[illegible]		
Pearson†	[illegible]		
P & O†	[illegible]		
Pilkington†	[illegible]		
PowerGen†	[illegible]		
Premier Farnell	[illegible]		
Provident Financial	[illegible]		
Prudential†	[illegible]		
REXAM	[illegible]		
RMC†	[illegible]		
RTZ†	[illegible]		
Racal	[illegible]		
Railtrack	[illegible]		
Rank Group†	[illegible]		
Reckitt & Colman†	[illegible]		
Redland†	[illegible]		
Reed Intl.†	[illegible]		
Rentokil†	[illegible]		
Reuters†	[illegible]		
Rolls Royce†	[illegible]		
Royal & Sun Alliance†	[illegible]		
Royal Bk Scotland†	[illegible]		
Safeway†	[illegible]		
Sainsbury†	[illegible]		
Schroders	[illegible]		
Scottish & Newc.†	[illegible]		
Scot. Hydro-Elec.	[illegible]		
Scottish Power†	[illegible]		
Sears	[illegible]		
Sedgwick	[illegible]		
Severn Trent†	[illegible]		
Shell Transport†	[illegible]		
Siebe†	[illegible]		
Slough Ests	[illegible]		
Smith (W.H.)	[illegible]		
Smith & Nephew†	[illegible]		
SmKl Beecham†	[illegible]		
Smiths Inds	[illegible]		
Southern Elec.	[illegible]		
South West Water	[illegible]		
Standard Chartd.†	[illegible]		
Storehouse	[illegible]		
T&N	[illegible]		
TI Group†	[illegible]		
Tarmac	[illegible]		
Tate & Lyle	[illegible]		
Taylor Woodrow	[illegible]		
TeleWest Comms.	[illegible]		
Tesco†	[illegible]		
Thames Water	[illegible]		
Thorn	[illegible]		
Tomkins†	[illegible]		
Unigate	[illegible]		
Unilever†	[illegible]		
United Biscuits	[illegible]		
Utd. News & Media†	[illegible]		
United Utilities†	[illegible]		
Vodafone†	[illegible]		
WPP	[illegible]		
Wassall	[illegible]		
Whitbread†	[illegible]		
Williams Hldgs.†	[illegible]		
Willis Corroon	[illegible]		
Wimpey (George)	[illegible]		
Wolseley	[illegible]		
Yorkshire Elec.	[illegible]		
Yorkshire Water	[illegible]		
Zeneca†	[illegible]		

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FTSE 100 index constituent. All trades are [illegible]

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Nov 27 / Sch)

[illegible]

BELGIUM/LUXEMBOURG (Nov 27 / Frs.)

[illegible]

CZECH REP (Nov 27 / Korona)

[illegible]

DENMARK (Nov 27 / Kr)

[illegible]

FINLAND (Nov 27 / Mks)

[illegible]

FRANCE (Nov 27 / Frs.)

[illegible]

GERMANY (Nov 27 / Dm.)

[illegible]

GREECE (Nov 27 / Drachma)

[illegible]

ITALY (Nov 27 / Lira)

[illegible]

NETHERLANDS (Nov 27 / Fls.)

[illegible]

NORWAY (Nov 27 / Kroner)

[illegible]

POLAND (Nov 27 / Zloty)

[illegible]

PORTUGAL (Nov 27 / Escudo)

[illegible]

SPAIN (Nov 27 / Pts.)

[illegible]

SWEDEN (Nov 27 / Kronor)

[illegible]

SWITZERLAND (Nov 27 / Frs.)

[illegible]

TURKEY (Nov 27 / Tk Lira)

[illegible]

PACIFIC

JAPAN (Nov 27 / Yen)

[illegible]

HONG KONG (Nov 27 / HK$)

[illegible]

INDONESIA (Nov 27 / Rupiah)

[illegible]

MALAYSIA (Nov 27 / MYR)

[illegible]

NEW ZEALAND (Nov 27 / NZ$)

[illegible]

SINGAPORE (Nov 27 / S$)

[illegible]

AUSTRALIA (Nov 27 / Aus$)

[illegible]

SOUTH KOREA (Nov 27 / Won)

[illegible]

TAIWAN (Nov 27 / TW $)

[illegible]

THAILAND (Nov 27 / Baht)

[illegible]

AFRICA

SOUTH AFRICA (Nov 27 / Rand)

[illegible]

NORTH AMERICA

CANADA

TORONTO (Nov 27 / Can $)
4 pm close

[illegible]

MONTREAL (Nov 27 / Can $)
4 pm close

[illegible]

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. * Calendar year high and low. ‡ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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INDICES

	Nov 27	Nov 26	Nov 25	1996 High		1996 Low	
Argentina							
General(29/12/77)	(c)	17696.86	17698.98	[illegible]	20/5	15297.28	22/8
Australia							
All Ordinaries(1/1/80)	2376.7	2382.0	2394.7	2394.70	25/11	2098.19	17/7
All Mining(1/1/80)	933.5	933.2	950.4	1118.40	8/5	821.39	12/11
Austria							
Credit Aktien(30/12/84)	375.97	371.97	371.59	394.88	31/5	349.19	6/9
Traded Index(2/1/91)	1105.85	1102.39	1100.85	1142.81	28/5	975.27	2/1
Belgium							
BEL20(1/1/91)	1869.58	1860.70	1871.91	1880.70	26/11	1574.89	2/1
Brazil							
Bovespa(29/12/83)	(c)	66315.0	66492.0	67080.08	21/10	43901.08	2/1
Canada							
Metals Minls♦(1975)	(c)	5494.04	5478.17	5824.80	8/5	4667.47	16/1
Composite♦(1975)	(c)	5975.56	5952.41	5975.56	26/11	4738.70	15/1
PortfolioSS(4/1/83)	(c)	3008.01	2976.74	3008.01	26/11	2327.39	12/1
Chile							
IGPA Gen♦(31/12/80)	(c)	5161.75	5195.44	6604.53	8/1	5161.75	26/11
Denmark							
CopenhagenSE(3/1/83)	454.96	456.96	452.95	456.96	26/11	369.40	2/1
Finland							
HEX General(28/12/90)	2369.78	2388.84	2408.42	2408.42	25/11	1851.67	10/1
France							
SBF 250(31/12/90)	1523.72	1528.31	1528.96	1528.96	25/11	1259.16	2/1
CAC 40(31/12/87)	2270.77	2275.08	2277.14	2277.14	25/11	1897.85	11/1
Germany							
FAZ Aktien(31/12/58)	967.25	971.70	967.42	971.70	26/11	818.88	2/1
Commerzbank(1/12/53)	2836.00	2844.50	2828.80	2844.50	26/11	2376.10	2/1
DAX‡(30/12/87)	2797.63	2810.84	2798.19	2810.84	26/11	2284.86	2/1
Greece							
Athens SE(31/12/80)	906.06	911.96	909.03	1017.88	4/3	872.99	7/6
Hong Kong							
Hang Seng(31/7/64)	13530.85	13485.33	13239.39	13530.85	27/11	10204.87	2/1
India							
BSE Sens.(1979)	2863.57	2948.44	2884.98	4069.26	18/6	2829.86	25/1
Indonesia							
Jakarta Comp.(10/8/82)	620.27	626.22	628.23	638.21	24/4	512.48	2/1
Ireland							
ISEQ Overall(4/1/88)	2658.19	2647.02	2635.21	2708.04	4/10	2234.81	2/1
Italy							
Banca Comm Ital(1972)	648.20	658.98	659.35	674.19	20/5	572.21	27/3
MIB General(2/1/86)	1099.0	1118.0	1118.0	1142.00	20/5	970.00	27/3
Japan							
Nikkei 225(16/5/49)	21345.28	21418.25	21203.57	22666.80	26/6	19734.70	13/3
Nikkei 300(1/10/82)	290.92	290.37	287.80	310.70	26/6	284.48	11/3
Topix(4/1/68)	1584.79	1584.78	1578.47	1722.13	26/6	1534.12	13/3
2nd Section(4/1/68)	1983.40	1993.15	1998.17	2291.49	2/7	1982.78	14/3
Malaysia							
KLSE Comp.(4/4/86)	1234.17	1234.73	1225.62	1234.73	26/11	988.18	2/1
Mexico							
IPC(Nov 1978)	(c)	3271.46	3246.65	3433.75	27/8	2736.36	8/3
Netherland							
CBS TtlRtnGen(End 83)	711.60	721.80	713.5	721.80	26/11	639.80	2/1
CBS All Shr(End 83)	417.70	423.60	421.7	423.60	26/11	328.70	2/1
New Zealand							
Cap. 40(1/7/86)	2358.83	2356.29	2339.17	2367.26	21/10	2026.14	7/6
Norway							
Oslo SE(Ind)(2/1/83)	1550.94	1562.38	1564.53	1566.74	22/11	1259.88	30/1
Philippines							
Manila Comp(2/1/85)	3065.65	3074.28	3104.46	3374.40	5/7	2578.67	2/1
Portugal							
BVL 30(4/1/93)	2072.33	2078.29	2078.86	2082.34	18/11	1682.81	2/1
Singapore							
SES All-S'pore(2/4/75)	541.31	540.73	540.41	610.37	5/2	508.76	21/10
South Africa							
JSE Gold(28/9/78)	1563.7♥	1573.4	1621.3	2030.40	29/5	1349.40	2/1
JSE Ind.(28/9/78)	8051.4♥	8015.4	7985.1	8730.30	25/1	7582.40	21/8
South Korea							
KoreaCmpEx**(4/1/80)	722.82	715.97	716.45	986.84	7/5	715.97	26/11
Spain							
Madrid SE(30/12/85)	395.96	398.49	397.43	398.49	26/11	322.76	11/1
Sweden							
AffarsvaldsGen(1/2/37)	2258.3	2265.8	2305.2	2305.20	25/11	1708.80	22/1
Switzerland							
Swiss Bk Ind(31/12/58)	1818.79	1828.99	1830.71	1846.85	15/11	1516.19	17/1
SBC General(1/4/87)	1298.84	1303.31	1307.52	1308.87	15/11	1114.47	26/1
Taiwan							
WeightedPr.**(30/6/66)	6892.66	6827.77	6836.87	6892.87	25/11	4690.22	6/2
Thailand							
Bangkok SET(30/4/75)	958.23	958.14	987.77	1418.04	8/2	895.34	15/10
Turkey							
Istanbul Comp.(Jan 1986)	86748.9	88335.0	89079.8	86748.90	27/11	38770.30	2/1
WORLD							
MS Capital Intl(1/1/70)	834.5*	836.8	837.2	837.20	25/11	726.98	15/1
CROSS-BORDER							
Eurotrack 100(26/10/90)	1845.94	1858.19	1853.87	1858.19	26/11	1504.40	11/1
Euro Top-100(28/6/90)	1554.59	1565.85	1563.13	1565.85	26/11	1330.01	11/1
HSBC JC Dragon(31/12/88)	(c)	419.52	415.25	419.52	26/11	344.18	2/1
ING Bargs Emerg(7/1/92)	(c)	160.05	160.13	165.92	4/7	147.35	2/1

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
CAC-40 (200 x Index)							
Nov	2275.0	2274.0	-1.0	2280.0	2263.0	22,823	20,522
Dec	2279.0	2278.0	-	2283.0	2267.0	10,036	23,144
DAX							
Dec	2805.0	2808.5	-7.0	2810.5	2790.0	18,720	-
Mar	2824.0	2826.0	-13.5	2830.0	2810.0	694	-
OMX							
Dec	1785.00	1765.00	-20.25	1785.00	1756.00	5,979	24,528
Jan	1777.50	1768.00	-46.75	1777.50	1768.00	50	4,529
SOFFEX							
Dec	3870.9	3853.0	-24.0	3880.0	3847.0	4,405	20,960
Jan	-	3855.5	-	-	-	4	1,962

** Sat Nov 23: Taiwan Weighted Price 6842.18; Korea Comp Ex (c). Base values of all Indices are 100 except Australia All Ordinary and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL30, SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX - all 1,000; JSE Gold - 255.7; JSE 20 Industrials - 264.3; NYSE All Common - 50 and Standard and Poor's - 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours Index: Nov 27 - 2793.85 -14.75.

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

US INDICES

Dow Jones	Nov 26	Nov 25	Nov 22	1996 High	1996 Low	Since compilation High	Since compilation Low
Industrials	6528.41	6547.79	6471.76	6547.79 (25/11)	5032.94 (10/1)	6547.79 (25/11/96)	41.22 (8/7/32)
Home Bonds	104.00	104.11	103.76	106.09 (14/2)	100.99 (15/7)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	2282.23	2289.75	2285.34	2286.20 (22/5)	1862.71 (18/1)	2286.20 (22/5/96)	13.23 (8/7/32)
Utilities	238.44	238.12	235.40	238.12 (25/11)	204.86 (30/7)	256.46 (31/8/93)	16.53 (8/7/32)

DJ Ind. Day's high 6606.30 (6565.68) Low 6475.49 (6443.44) (Theoretical♦)
Day's high 6589.53 (6548.16) Low 6497.11 (6464.31) (Actual♦)

Standard and Poors	Nov 26	Nov 25	Nov 22	1996 High	1996 Low	Since compilation High	Since compilation Low
Composite‡	755.96	757.03	748.73	757.03 (25/11)	598.48 (10/1)	757.03 (25/11/96)	4.40 (1/6/32)
Industrials♥	885.96	886.90	878.54	886.90 (25/11)	702.07 (15/1)	886.90 (25/11/96)	3.52 (30/6/32)
Financial	84.44	84.62	82.87	84.62 (25/11)	58.67 (10/1)	84.62 (25/11/96)	7.13 (4/9/74)
NYSE Comp.	397.98	398.86	394.55	398.86 (25/11)	321.41 (10/1)	398.86 (25/11/96)	4.64 (25/4/42)
Amex Mkt Val	588.33	589.38	590.77	614.99 (22/5)	525.60 (16/7)	614.99 (22/5/96)	29.13 (9/12/74)
NASDAQ Comp	1281.20	1280.37	1274.86	1281.20 (26/11)	988.57 (15/1)	1281.20 (26/11/96)	54.87 (3/10/74)

RATIOS

	Nov 22	Nov 15	Nov 8	Year ago
Dow Jones Ind. Div. Yield	2.02	2.06	2.09	2.32

	Nov 20	Nov 13	Nov 6	Year ago
S & P Ind. Div. yield	1.84	1.87	1.89	2.36
S & P Ind. P/E ratio	22.98	22.84	23.58	19.03

NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Change on day
Pepsico	8,605,500	29⅝	-
Texas Inst	6,974,800	61	+4½
Lucent N	5,887,900	15⅝	+⅛
IBM	5,496,400	158	+⅛
Newbridge	5,082,800	27⅜	-1¼
AT & T	5,059,800	38⅝	+⅝
W. Disney	4,814,000	76⅝	+2¼
Ph Morris	4,487,800	105	-½
Barrick Gld	4,424,400	28⅝	+1⅜
McDonalds	4,202,300	47	-⅜

TRADING ACTIVITY

● Volume (million)

	Nov 26	Nov 25	Nov 22
New York SE	538.501	478.354	525.208
Amex	27.006	26.824	25.296
NASDAQ	641.150	638.908	666.406
NYSE			
Issues Traded	3,328	3,338	3,310
Rises	1,144	1,626	1,511
Falls	1,354	881	959
Unchanged	830	829	840
New Highs	286	358	264
New Lows	33	17	22

S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open Int.
Dec	757.30	758.30	+0.95	759.25	757.10	101,276	199,193
Mar	-	764.45	-	-	759.90	7,192	28,601

Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
Dec	21390.0	21320.0	-40.0	21440.0	21260.0	28,382	210,657
Mar	21440.0	21360.0	-30.0	21490.0	21310.0	13,464	70,528

Open interest figures for previous day.

TOKYO - MOST ACTIVE STOCKS: Wednesday, November 27, 1996

	Stocks Traded	Closing Prices	Change on day
Mitsubishi Hvy	15.7m	952	+6
Honda Motor	8.7m	3470	+170
Toyota Motor	6.8m	3140	+80
Kobe Steel	5.9m	277	-2
Nippon Steel Cp	4.8m	353	-3
NKK Corp	4.8m	282	-3
NEC Corp	4.2m	1410	-10
Hitachi	3.8m	1070	
Bk Tk-M'bishi	3.8m	2360	+40
Ricoh Co	3.4m	1260	+10

NEW YORK STOCK EXCHANGE PRICES

4 pm close November 27

1996 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chge Prev. Close
31¼	17¼	AAR	0.48	1.6	27	1318	29⅞	29⅝	29¾	
46⅛	33	AMP	1.00	2.6	19	9813	38¼	37¾	38¼	+⅜
97½	68	AMR			17	2688	91	89½	89¾	-1
50½	37⅜	ASA x	1.40	3.7	25	288	38	37⅝	37⅝	-¼
57⅞	38⅛	AbbtL	0.96	1.7	23	6717	56⅛	55⅝	55¾	-½
17¾	12¼	Abitibi Pr	0.40	2.7	7	475	15	14¾	15	
20¾	13½	ABM Ind	0.35	2.0	17	73	17⅛	17	17⅛	+⅛
22½	13⅞	Acpcade			18	228	20½	20¼	20½	+⅛
60	37⅞	ACE Ltd	0.56	1.0	13	428	57½	57	57⅜	+⅛
10⅜	9⅛	ACM Gvt In	0.90	8.7	9	212	u10⅜	10¼	10⅜	+⅛
7⅞	6⅝	ACM GvOpp	0.57	7.9		118	7¼	7¼	7¼	
9⅞	8⅝	ACM Man	0.90	9.1		287	u9⅞	9⅝	9⅞	+⅛
13⅞	6½	Acme Elect	0.32	4.5	54	119	7½	7	7⅛	
20⅝	13⅞	Acme Mills			14	191	u20⅝	20⅛	20⅜	+¼
39¾	27¼	Acordia	0.80	2.7	15	38	30	29⅞	29⅞	-½
24¼	12	Acxiom			104	394	22¼	21½	21⅞	-⅜
21½	17⅞	Adams Expr x	0.55	2.8	1	185	19⅞	19⅜	19¾	-⅛
25¾	10¼	Adtalic			25	5769	24¾	24¼	24½	-⅜
11⅛	8½	Advest Grp	0.16	1.5	7	133	10⅜	10¼	10⅜	
28⅞	9⅛	Advo Inc	0.10	0.8	97	35	12⅝	12⅛	12⅝	+¼
58⅝	41½	Aegon	1.45	2.6	17	149	55⅞	55¼	55½	-½
6¾	3½	Aeroflex			2	106	4½	4¼	4¼	-⅛
72½	57⅝	Aetna	0.80	1.1	9	2804	72¼	71⅛	72⅛	+¾
44	28¼	Aflac x	0.40	0.9	17	1500	43	42¼	42½	-½
22	17⅛	AGL Res x			15	544	21¼	21	21¼	
33⅞	21¼	Ahmanson	0.88	2.7	58	2551	33¼	32⅞	32⅞	-⅛
70	50⅜	AirPrC	1.10	1.6	18	1522	69⅞	68⅞	68⅞	+½
26⅞	19½	Airborne Frt	0.30	1.4	15	257	21½	21⅛	21⅛	-⅛
27⅞	15½	Airgas Inc			40	281	26⅞	26	26	-⅞
18⅞	13¾	Airlease	1.80	11.4	10	9	15⅞	15¾	15¾	
33⅝	25	AirTch			70	8018	25¾	d25	25¼	-⅛
30¾	15⅞	Alaska Air	0.20	0.8	7	585	23⅞	23⅝	23¾	

Continued on next page

4 pm close November 27

NYSE PRICES

Continued from previous page

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
7¾	6½	Zenix Inc x	0.73	10.1		85	u7¾	7⅝	7¾	+⅛
22⅞	15⅛	Zero	0.12	0.6	16	74	19⅞	19⅝	19⅞	+⅛
29	16½	Zurn Ind	0.40	1.4	31	70	28⅞	28¾	28¾	-⅛
11⅝	10½	Zweig Fund	1.08	9.9		267	11	10⅞	10⅞	-⅛
9	8¼	Zweig Tot	0.84	10.0		539	8½	8⅜	8⅜	-⅛

Price data supplied by Telekurs

Yearly highs and lows for NYSE reflect the period from Jan 1 1996. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. dis-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
¶ Dealings suspended.

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AMEX PRICES

4 pm close November 27

NASDAQ NATIONAL MARKET

4 pm close November 27

Dow slips ahead of Thanksgiving

AMERICAS

US stocks extended Tuesday's losses at midsession, as investors continued to take profits ahead of the *Thanksgiving holiday*, which closes US financial markets today and tomorrow afternoon, *writes Richard Tomkins in New York*.

The Dow Jones Industrial Average opened lower and stayed around 30 points down all morning: at 1pm the index was 32.05 points off at 6,496.36. The Standard & Poor's 500 was 1.52 down at 754.44, while NYSE volume was relatively heavy for the eve of a holiday: by lunchtime, some 225m shares had changed hands.

The main feature of the *morning's trading* was nervousness about the possibility of a correction after the market's eyebrow-raising advances since the presidential election on November 5. Mutual funds continue to pour money into the market, but by many measures it is overvalued, and some investors are quitting ahead of a downturn that they regard *as inevitable*.

Economic data released yesterday gave the market little cause for concern: the report for October durable goods orders showed a modest rise, instead of the expected decline, but jobless claims were unchanged and the figure for third quarter *growth* in gross domestic product was revised downwards from 2.2 per cent to 2 per cent.

Instead, much of the attention was focused on profit-taking in blue chip stocks. *Walt Disney, which had shot* up $2⅝ on Tuesday on strong *quarterly* results, lost most of its gains, falling $2⅝ to $73⅞. Philip Morris was off $⅝ at $104⅛. Procter & Gamble was off $1¼ at $108¼ and General Motors was down $1⅝ at $57. But IBM added to *its recent strong gains, put*ting on $1¼ to $159¼.

Contrasting with the blue chips, small capitalisation and Nasdaq stock indices *registered modest gains, led* by increases in smaller computer and technology issues. America Online was a big gainer on the back of an analyst's report saying that it was poised to do well from the Internet through new pricing, features, content and access: its shares were up $2⅝ at $35¼.

TORONTO was mixed throughout the morning session, although traders said the trend, underpinned by a *solid banks sector*, was steady in the face of the early setback on Wall Street.

At noon, the 300 composite index was up 0.15 at 5,975.71. Pipelines were the best performing sector but banks also moved higher, helped by strong numbers from *Bank of Nova Scotia which* added 15 cents to C$46. Toronto-Dominion Bank gained 30 cents to C$36.35.

CARACAS remained weak, the IBC index adding to Tuesday's 1.8 per cent fall with *another of 28.28* at 5,969.61 by midsession. The benchmark Electricidad de Caracas edged 1.05 bolivars higher to 512.05 bolivars while the telecommunications monopoly CANTV rose *37 bolivars to 1,685 bolivars*.

MEXICO CITY edged ahead at midsession, supported by a drop in Mexican Treasury bill interest rates, but also cautious ahead of today's Thanksgiving holiday in the US. The IPC index was up 5.49 at 3,276.94.

S African industrials press higher

Gold and industrial shares in Johannesburg continued to move in opposite directions as a soft bullion price clashed with a stronger day for the rand.

Industrial shares, buoyed by the better rand, forged ahead by 36.0 to 8,051.4. This was enough to offset dull golds and leave the overall index up 28.6 at 6,749.9. Golds closed off 9.7 at 1,563.7.

De Beers gained R1.25 to R139.25. Absa added 50 cents to R24.50 and Nampak 85 cents to R19.10. Turnover, hit by a systems failure in the morning, was said to be well below average at R208m.

Among golds, Freegold shed R1 to R36 and Kloof lost 25 cents to R38.25.

EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES

Market	No. of stocks	Dollar terms: November 22 1996	Dollar terms: % Change over week	Dollar terms: % Change on Dec '95	Local currency terms: November 22 1996	Local currency terms: % Change over week	Local currency terms: % Change on Dec '95
Latin America	(249)	527.58	−0.6	+11.8			
Argentina	(31)	901.46	+0.8	+12.6	552,840.63	+0.8	+12.5
Brazil	(68)	375.03	+0.5	+22.8	1,445.91	+0.6	+30.2
Chile	(45)	571.70	−0.4	−10.3	1,132.54	+0.1	−7.1
Colombia[1]	(14)	632.60	−0.7	+5.6	1,114.52	−0.9	+6.2
Mexico	(64)	517.21	−2.3	+14.1	1,755.10	−2.7	+18.6
Peru[2]	(19)	198.32	−3.8	+0.6	311.61	−3.8	+12.3
Venezuela[3]	(8)	698.52	+3.4	+108.9	7,565.59	+3.5	+189.9
Asia	(712)	255.82	+0.6	+10.2			
China[4]	(27)	61.07	+6.1	+12.9	64.00	+6.2	+12.6
South Korea[5]	(157)	89.22	−2.3	−29.2	96.78	−2.7	−24.6
Philippines	(42)	290.53	+0.4	+11.9	368.76	+0.4	+12.1
Taiwan, China[6]	(90)	149.78	+2.5	32.8	154.63	+2.5	+33.8
India[7]	(79)	76.49	−4.7	−4.8	96.97	−4.8	−3.4
Indonesia[8]	(49)	126.47	−1.2	+15.3	161.11	−0.8	+18.2
Malaysia	(148)	335.22	+2.4	+23.6	311.65	+2.2	+22.6
Pakistan[9]	(28)	218.23	−4.2	−10.1	398.66	−4.2	+5.7
Sri Lanka[10]	(5)	102.68	−0.2	−1.3	126.80	−0.9	+4.9
Thailand	(87)	270.50	−3.8	−28.0	272.99	−3.8	−27.4
Euro/Mid East	(264)	134.97	+0.4	−4.7			
Czech Rep	(7)	65.39	+6.7	+9.0	57.84	+5.6	+8.7
Greece	(54)	244.58	+1.7	+1.3	392.65	+1.2	+1.5
Hungary[11]	(12)	178.77	+3.4	+81.6	334.49	+3.4	+106.7
Jordan	(7)	179.64	−0.9	−2.7	268.39	−0.9	−2.6
Poland[12]	(30)	709.69	+1.5	+66.5	1,255.96	+1.4	+89.7
Portugal	(28)	143.07	+0.5	+23.6	149.30	+0.1	+25.6
South Africa[13]	(63)	213.09	−0.8	−17.4	202.83	−2.2	+4.4
Turkey[14]	(58)	146.93	+4.0	+40.6	6,920.65	+5.1	+131.5
Zimbabwe[15]	(5)	437.98	+0.8	+59.5	692.25	+1.4	+83.6
Composite	(1225)	295.07	+0.3	+7.0			

Indices are calculated at end-week, and weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1993; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993.

Share prices continued on their downward path in tense official trading on the Dhaka stock exchange yesterday, *writes Kasra Naji*.

Outside, where riot police stood by in case of violence, thousands of dealers suspended trading on the unofficial kerb market to stage demonstrations *alleging manipulation of the market* by stock exchange members.

The DSE all share index added to the losses of the previous two sessions with another of 93.56 or 2.9 per cent at 3,124.11.

"Regulators, DSE members, and investors are all asking themselves what can be done to prevent a serious correction that could ruin the credibility *of Bangladeshi capital markets," said* one broker.

The index rocketed from around 1,200 at the beginning of September to a high of 3,627 in mid-November on a wave of euphoric buying which, analysts agreed, was unjustified on fundamentals. *Shares turned back after the* government announced a series of measures to cool the market.

"Everyone agrees that the prices were not sustainable, but the government measures have created a *tense situation*," said a stock exchange member yesterday. The measures included a ban on banks from sanctioning loans against shares and a prohibition on *stock exchange members from being* managing directors of listed companies.

Earlier, the government introduced a 5 per cent "circuit breaker" to limit *price movements up or down. However* the mechanism does not apply to the kerb market where price movements can be considerably more volatile.

Company news invites profit taking

EUROPE

Leading bourses nudged lower as a combination of early Wall Street weakness and modest profit-taking sapped sentiment across Europe.

AMSTERDAM, up almost 20 points in four sessions, *peeled off the top with the* strongest display of energy, aided by some disappointing corporate news. The AEX index ended 8.70 down at 618.40, a decline of 1.4 per cent.

Nedlloyd fell Fl 1.60 to Fl 44.20 after the shipping *and storage group's third* quarter progress report results fell short of broker expectations.

Ahold, the fast expanding foods retailer which had risen more than 20 per cent *since mid-summer*, dipped Fl 3.40 to Fl 103.9 as nine month figures sparked profit-taking.

ABN Amro fell Fl 1.90 to Fl 108.3 after Moody's downgraded the outlook for the bank's *credit rating* from stable to negative following its $1.9bn bid for Standard Federal Bancorp of the US.

FRANKFURT reacted savagely to the Detroit judgement that US federal racketeering *laws could be* invoked in General Motors' civil suit against the Volkswagen purchasing manager and former GM employee, *Mr José* Ignacio Lopez de Arriortua, and others accused of conspiracy to commit fraud and industrial espionage.

VW, up 28 per cent since July 30 as confidence built in the German automotive industry, dropped DM32.50 *or 5.1 per cent to DM608 and* replaced Deutsche Telekom at the top of the active stocks list. VW turned over DM1.85m within a total down from DM15.4bn to DM12.1bn.

The broad market took profits, and the Dax index *closed 14.76 lower at an Ibis-*indicated 2,793.86. Among other sufferers, Lufthansa fell 28 pfg to DM19.90 ahead of today's third quarter report, weak for the second day in succession in spite of reports yesterday *that the* flag airline was looking for an annual 5 per cent increase in productivity and a 4 per cent cut in costs.

The blue chip winner of the day was Siemens, *DM1.22 higher at DM71.98* after a bearish run throughout most of 1996. Mr Michael Geiger, German strategist at *CS First Boston*, noted that restructuring costs were behind the group's forecast *that it would go ex-growth in* 1996/97: "That is good news for me", he maintained.

PARIS had a mixed session. Eurotunnel bounced sharply after tumbling more than 15 per cent in two days, but falls outpaced rises by two-to-one within the CAC 40 which closed off 4.31 at 2,270.77.

Wall Street looked like starting the Thanksgiving break in downbeat mood and bonds were flat. The French truckers' strike entered its 10th day and sparked sympathetic action among railworkers.

Eurotunnel rebounded sharply, rising 9 per cent after its co-chairman, Mr Patrick Ponsolle, said that its recent fire losses were largely covered by insur*ance, and would be limited*. The shares gained 60 centimes to FFr7.05.

Alcatel Alsthom, down FFr8 on Tuesday, fell a further FFr1.60 to FFr460.5 on worries that there might be *a fresh bid for the Thomson* group early next year.

A recent analysts meeting helped lift Sanofi FFr9.30 to FFr465. And a broker upgrade sent Air Liquide FFr1.60 higher at FFr460.5.

GAN came off 80 centimes to FFr114.10 on confirmation of management changes.

ZURICH reported US and *UK funds locking* in profits ahead of any further weakness in the Swiss franc against the dollar and European currencies. The SMI index sank 32.9 to 3,845.3.

UBS fell SFr18 to SFr1,211, still *depressed by Tuesday's* news that the bank would post a SFr500m loss this year after taking a SFr3bn charge for restructuring. Swiss Re, trading ex-dividend, fell SFr15.50 to SFr1,414.

*The big three pharmaceu*ticals were under pressure, led down by a SFr140 fall in Roche certificates to SFr9,830. Rumours in London, late in the day, suggested that the Swiss group might be about to launch a bid for SmithKline Beecham or for Astra of Sweden.

Against the trend, Ascom added SFr56 to SFr1,362 on a vague *takeover rumour*, dismissed as speculation by the *telecoms* company.

Electrowatt was SFr5 higher at SFr504 on revived rumours of an alliance with Motor Columbus, unchanged at SFr2,680.

MILAN posted losses in lethargic, technical trade, with Wall Street adding to the woes. The *Comit index* fell 10.76 to 648.20 while the *real time Mibtel* index finished 130 down at 10,294.

Saipem, the oilfield services arm of Eni, the energy group, dropped 5.2 per cent following press reports forecasting flat 1996 profits. The shares, also weak on Tuesday, fell L365 to L6,658.

Gemina dropped *another* L18.6 to L776.1 ahead of *today's shareholders'* meeting, called to approve plans to hive off its industrial holdings into a new company, HPI.

Olivetti gave up *L7.4 to* L547 as the chief executive *warned parliament* against opening an inquiry into the company's affairs, saying that the prospect of such a probe could lead clients to defect and *force the group to* close down.

Written and edited by William Cochrane, Michael Morgan and Jeffrey Brown

FTSE Actuaries Share Indices

THE EUROPEAN SERIES

Nov 27 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FTSE Eurotrack 100	1851.42	1849.47	1849.51	1847.87	1847.64	1848.20	1847.94	1845.94
FTSE Eurotrack 200	1909.69	1907.82	1906.27	1904.02	1904.40	1905.32	1902.99	1900.73

	Nov 26	Nov 25	Nov 22	Nov 21	Nov 20
FTSE Eurotrack 100	1858.19	1853.87	1835.16	1827.09	1828.66
FTSE Eurotrack 200	1915.55	1902.73	1883.92	1870.87	1869.15

Base value 1000 (26/10/90). High/day: 100 - 1852.43; 200 - 1911.08 Low/day: 100 - 1845.18 200 - 1899.51. † Partial

Bombay off 2.2% on oil product fears

ASIA PACIFIC

Worries that a possible rise in petroleum product prices could strain relations among ruling United Front coalition members left BOMBAY 2.2 per cent lower, the BSE-30 index losing 64.87 to 2,883.57.

ACC tumbled Rs138 to Rs1,018 after its first half net *profits fell sharply below* expectations. Telco slid Rs18 to Rs318.75, extending recent losses among motor manufacturers on fears of a prolonged slowdown in the economy.

TOKYO fell back following the release of the widely-watched "tankan," the Bank of Japan's quarterly survey of business confidence, although the results matched earlier predictions of a lukewarm recovery in sentiment, *writes Gwen Robinson*.

The Nikkei 225 average shed 72.97 to 21,345.28, after moving between 21,258.73 and 21,460.57. Volume rose from 388m shares to an estimated 400m as many inves*tors took profits, following* the Nikkei's 275-point climb in the preceding three trading days.

There was continuing polarisation between some leading international blue chips, which were heavily bought, and laggards such as construction stocks, which continued to retreat.

The Topix index of all first-section stocks was unchanged at 1,584.79, and the capital weighted Nikkei 300 was up 0.55 at 299.92. Declines led advances by 682 to 387 with 165 unchanged.

In London, the ISE/Nikkei 50 index fell 1.28 to 1496.69.

The tankan found tepid sentiment in the manufacturing sector, and this was disappointing for equity investors, noted Ms Mineko Sasaki-Smith, an economist at CS First Boston. However, some analysts believed that *the tankan would have little* effect on recent net buying by foreign investors. "Foreigners are showing more optimism about the economy and that's more due to the government's deregulation policies," said Mr Jason James of James Capel.

Among blue chips, Sony surged Y150 to Y7,380. Leading carmakers continued their climb, Honda with a *jump of Y170 to* Y3,470, Toyota Y80 higher at Y3,140 and Matsushita Electric Industrial Y10 to Y1,990.

But many other electricals and high-technology issues lost ground. TDK sank Y60 *to Y7,490 on profit-taking fol*lowing substantial gains on last week's announcement of record interim profits.

Among camera makers, Canon added Y40 to Y2,490, while Nikon fell Y10 to Y1,420 and Minolta lost Y8 to *Y721.60 to Y2,450*.

Mitsubishi Heavy Industries, the most active issue for the third consecutive day, added a further Y6 to Y952. Construction issues continued to lose ground with Shimizu and Kajima each falling Y45, to Y965 and Y915 respectively.

Retail-related stocks, which gained following Monday's report of strong October sales at department stores nationwide, turned mixed. Mitsukoshi fell Y10 to Y1,040 *and* Isetan added Y10 to Y1,620.

In Osaka, the OSE average rose 18.21 to 21,667.89 and volume surged to 100.2m shares.

HONG KONG overcame an early pullback to close at another *all time high on* futures-related activity and strong demand for utilities and property developers. The Hang Seng index, which sank to a low of 13,347.62, finished 45.62 higher at 13,530.95. Turnover rose to HK$13.4bn, boosted by a placement of 310m shares by Amoy Properties. Amoy shares closed 30 cents down at HK$11.20, just above the placement price of HK$11.10.

SHENZHEN's hard currency B shares dropped 6.3 per cent *on profit-taking* after their recent surge and on recurrent rumours that Beijing planned to crack down on mainland Chinese who bought the shares illegally. The B index dived 8.53 to 126.61.

COLOMBO, more than 13 per cent ahead over the past two months, closed lower, led by declines in high capitalisation blue chips and by a round of profit-taking. The all share index ended 4.19 down at 607.69.

MANILA lost ground following a disappointing debut for Digitel, the telecoms company partly owned by Cable & Wireless of the UK. The composite index slipped 8.63 to 3,065.65.

Digitel ended first day trading at 2.55 pesos, 45 centavos short of its flotation price. Bank of Philippine Islands gained 10 pesos to 156 on a favourable Standard & Poor's credit rating.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS (Figures in parentheses show number of lines of stock)	Tue Nov 26 1996: US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	Mon Nov 25 1996: US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Dollar Index: 52 week High	52 week Low	Year ago (approx)
Australia (78)	222.38	−0.4	197.09	158.46	176.61	182.15	−0.5	4.19	223.36	197.96	158.84	176.41	183.09	223.36	183.80	183.80
Austria (24)	184.71	−0.3	163.70	131.61	146.69	146.62	0.2	1.95	185.33	164.26	131.79	146.36	146.31	195.04	168.26	171.53
Belgium (27)	226.56	−0.2	200.80	161.44	179.93	173.80	0.3	3.79	226.95	201.14	161.89	179.25	173.27	229.11	197.99	198.91
Brazil (28)	180.29	−0.4	159.79	128.47	143.19	349.48	−0.2	1.79	180.96	160.38	128.20	142.92	345.28	182.31	121.23	131.94
Canada (116)	195.39	0.3	173.17	139.22	155.17	189.97	0.5	1.85	194.74	172.59	138.48	153.81	189.13	195.39	144.35	148.44
Denmark (33)	340.26	0.3	301.57	242.45	270.23	271.45	0.9	1.70	339.27	300.69	241.26	267.96	269.06	340.41	276.89	279.98
Finland (24)	238.01	−0.7	210.95	169.59	189.02	229.70	−0.1	2.19	239.65	212.39	170.38	189.24	230.00	240.85	171.75	214.50
France (93)	210.65	−0.8	186.62	150.03	167.22	171.18	−0.1	2.85	212.37	188.22	151.02	167.73	171.30	212.41	167.70	182.33
Germany (59)	186.49	−0.3	165.29	132.89	148.11	148.11	0.2	1.64	187.08	165.81	133.04	147.76	147.76	188.59	159.82	159.85
Hong Kong (58)	511.02	1.5	452.91	364.12	405.84	507.30	1.5	3.05	503.52	446.28	358.08	397.69	499.84	511.02	362.75	362.75
Indonesia (27)	226.40	−0.1	200.65	161.32	179.80	325.76	−0.1	1.58	226.55	200.78	161.10	178.93	325.97	[illegible]	[illegible]	[illegible]
Ireland (16)	318.15	0.5	281.97	226.69	252.67	267.89	0.5	3.41	316.65	280.64	225.18	250.09	266.53	319.32	249.80	256.47
Italy (58)	81.81	−1.6	72.51	58.30	64.97	92.60	−0.8	2.24	83.10	73.65	59.09	65.63	93.35	84.59	67.22	68.20
Japan (480)	142.73	0.3	126.50	101.70	113.35	101.70	0.5	0.76	142.31	126.13	101.20	112.40	101.20	164.68	137.82	143.98
Malaysia (107)	606.52	0.5	537.55	432.18	481.69	589.82	0.5	1.66	603.60	534.96	429.23	476.73	586.82	606.52	445.00	445.00
Mexico (27)	1181.76	1.3	1047.38	842.08	938.53	10198.61	0.7	1.09	1166.83	1034.15	829.76	921.58	10130.34	1325.95	936.46	936.46
Netherland (19)	328.12	0.1	290.81	233.80	260.58	256.73	0.6	2.88	327.95	290.65	233.21	259.02	255.18	328.12	262.62	262.62
New Zealand (15)	92.27	0.3	81.77	65.74	73.28	88.09	0.8	3.99	91.97	81.51	65.40	72.64	88.52	94.38	75.94	79.00
Norway (35)	278.64	−0.7	247.13	198.69	221.45	243.70	−0.5	2.00	280.77	248.84	199.66	221.76	244.95	283.54	222.24	223.11
Philippines (22)	193.98	−1.0	171.92	138.22	154.05	253.91	−1.0	0.63	196.02	173.73	139.39	154.82	256.52	[illegible]	[illegible]	[illegible]
Singapore (43)	421.69	0.5	373.73	300.47	334.89	272.39	0.5	0.99	419.56	371.84	298.35	331.36	270.93	465.21	371.26	371.42
South Africa (44)	327.36	1.1	290.13	233.26	259.98	258.02	0.8	2.38	323.71	286.90	230.20	255.67	325.97	437.78	314.20	371.24
Spain (37)	198.16	−0.2	175.65	141.22	157.40	193.06	0.4	3.09	198.72	176.12	141.31	156.95	192.35	198.85	157.69	160.06
Sweden (48)	410.57	−1.5	363.89	292.55	326.07	406.06	−1.0	2.10	416.67	369.29	296.31	329.09	410.07	416.67	294.19	321.99
Switzerland (37)	244.30	−1.2	216.52	174.08	194.02	195.96	−0.3	1.51	247.25	219.13	175.82	195.28	196.65	254.24	219.29	230.31
Thailand (45)	120.26	−1.0	106.59	85.69	95.51	118.88	−0.9	2.89	121.49	107.67	86.39	95.95	120.00	193.85	112.17	114.50
United Kingdom (213)	273.13	0.3	242.07	194.62	216.92	242.07	0.3	3.93	272.30	241.33	193.64	215.06	241.33	273.13	222.43	227.77
USA (624)	307.22	−0.1	272.26	218.91	243.99	307.22	−0.1	1.95	307.64	272.66	218.77	242.98	307.64	307.64	243.34	245.90
Americas (795)	280.85	−0.1	249.01	200.19	223.13	238.16	−0.1	1.94	281.25	249.27	200.00	222.13	238.41	281.25	222.23	224.13
Europe (720)	233.60	−0.3	207.03	166.45	185.52	192.47	0.1	2.90	234.32	207.67	166.63	185.07	192.27	234.56	194.51	198.03
Nordic (137)	351.39	−1.0	311.43	250.38	279.07	304.72	−0.5	2.05	354.98	314.61	252.43	280.37	303.21	355.21	261.13	264.48
Pacific Basin (876)	160.80	0.3	142.51	114.57	127.70	115.71	0.5	1.22	160.23	142.01	113.94	126.55	115.12	177.01	153.87	153.87
Euro-Pacific (1596)	191.01	0.0	169.23	136.10	151.70	147.29	0.3	2.06	190.99	169.27	135.81	150.84	146.64	191.51	172.19	172.18
North America (740)	300.56	−0.1	266.38	214.16	238.70	299.53	−0.1	1.95	300.90	266.69	213.98	237.66	299.85	300.90	237.55	239.88
Europe Ex. UK (507)	207.59	−0.7	183.99	147.92	164.86	173.88	0.0	2.30	208.99	185.22	148.62	165.06	173.72	209.70	174.81	177.67
Pacific Ex. Japan (396)	317.82	0.6	281.68	226.46	252.40	272.60	0.6	2.74	316.09	280.15	224.78	249.65	271.10	317.82	248.67	248.67
World Ex. US (1811)	193.06	0.1	171.11	137.57	153.33	152.59	0.3	2.07	192.97	171.02	137.22	152.41	152.12	193.47	173.24	173.24
World Ex. UK (2222)	224.74	−0.1	199.18	160.13	178.48	192.40	0.1	1.61	224.86	199.29	159.90	177.60	192.23	224.89	192.43	192.43
World Ex. Japan (1955)	274.35	−0.1	243.15	195.49	217.88	257.59	0.0	2.37	274.66	243.43	195.32	216.93	257.60	274.66	234.22	234.22
The World Index (2435)	228.89	0.0	202.86	163.10	181.78	197.00	0.1	2.02	228.87	202.85	162.82	180.84	196.79	228.87	195.82	195.52

PLEASE NOTE: Amendments to Indices 26/11/96 applied to Brazil, Canada, Mexico, USA, related regional indices and The World Index. Latest prices were unavailable for this edition.

Greece

The moderate Socialist leadership is moving steadily towards monetary union targets while remaining aware of the possible social consequences, reports Kerin Hope

Cautious style, ambitious plans

Mr Costas Simitis, Greece's prime minister for the past 10 months, and his low-key but cheerful advisers from the academic world have brought a welcome change of style. Their declared aim is to transform a modest economic recovery into sustained growth that would propel Greece into membership of the European monetary union by 2000 or 2001. The question is whether Mr Simitis is prepared to make the tough choices needed to give substance to this ambition.

For Mr Simitis, who took over as prime minister after the resignation of Andreas Papandreou on grounds of ill-health, the answer will determine Greece's future role in the European Union as well as his own survival in the premiership.

Decisions were postponed while the new prime minister consolidated his moderate faction's grip on the unruly Panhellenic Socialist Movement. This was achieved in June when delegates to a party congress voted him into the leadership in a cliff-hanger election held a few days after Mr Papandreou's death.

With the Socialists' victory in a snap general election in September, the remaining obstacles to launching reform were removed. Not only did Mr Simitis's soundness on economic policy bring him the support of Greece's business class, but their defection plunged the conservative New Democracy party into a crisis of leadership and political identity that may take months to resolve.

However, Mr Simitis's extraordinary run of political luck this year does not seem to have undermined his preference for moving cautiously. His defeated rivals, Mr Akis Tsochatzopoulos and Mr Gerasimos Arsenis are still in the cabinet, together with other Socialists from a hardline faction which is still deeply suspicious of the rigorous policies required to meet the Maastricht convergence criteria.

To restrain the Socialist barons, Mr Simitis appointed trusted lieutenants as deputy ministers. But his managerial style of governing, which calls for more paperwork and considerably more discussion than in the days of the autocratic Mr Papandreou, is still taken as a sign of weakness by some cabinet members.

The business mood, though still confident, has been affected by the absence of radical proposals to curb the budget deficit and boost tax collection. A preview of the 1997 budget by Mr Yannos Papantoniou, the economy minister, made clear that once again efforts to reduce the deficit would be based on revenue increases rather than spending curbs. Much of the projected increase would result from growth, which is forecast to reach about 2.6 per cent this year and rise above 3 per cent in 1997, thanks to increased inflows for infrastructure projects from the EU and strong private investment.

In spite of pre-election spending pressures, the deficit target of 7.6 per cent of GDP should be met. The 1997 target of 4.2 per cent is much more ambitious, but if achieved would put Greece in line for reaching the 3 per cent Maastricht target in 1998, only a year later than most of its Union partners.

Interest rates have fallen steadily, and the drachma has strengthened. Inflation is gradually moving down but at 8.3 per cent is still more than double the Union average. Even some government advisers accept that it will be hard to meet next year's inflation target of 4.5 per cent, given that wage policy is not likely to be tightened.

The Socialists want at all costs to avoid a repeat of the social disruption of the early 1990s, when New Democracy's stabilisation effort, based on real wage cuts, pension reform and a wide-ranging privatisation programme, collapsed amid a wave of strikes and demonstrations. Such an outcome could turn Greek public opinion decisively against monetary union.

Another real wage rise is promised next year on top of real increases this year of around 11 per cent for many civil servants, who have benefited from the award of productivity bonuses. Some categories of pensions are to be increased, but the Socialists claim that the introduction of means testing next year will slow overall growth in pension outlays.

Structural reforms are to be introduced gradually, starting with legislation intended to shrink the over-staffed public sector: from next year, only one new employee will be hired for every five who leave. But other proposals such as spending caps for local government and state organisations, including hospitals, that are funded directly by the central government, will take time to have an impact on the budget deficit.

The powerful public sector trade unions have issued stern warnings to Socialist officials. Their leaders backed Mr Simitis during his rise to the premiership and exert a strong influence over the Socialist party machine. They have few qualms about overturning managers' attempts to trim the payroll or restrain wage increases.

Mr Simitis has his work cut out persuading the unions over Emu. Greece's unemployment rate, held down in the past by emigration and the growth of the public sector, is rising to northern European levels. Small family-owned companies are being forced out of business by stiffer competition and most productivity gains achieved by larger manufacturers have come about as a result of shedding jobs. Unemployment is forecast to reach 10.2 per cent this year.

The prime minister's critics point out, too, that Greece lies on the EU periphery without a land border with any member state and that its two leading industries, shipping and tourism, can operate successfully outside trade blocs. Exports to the rest of the Union are increasing only marginally while those to east Europe and the Middle East, both traditional markets, have shown a steady rise.

Yet Greece is dependent on EU inflows in order to stimulate investment. Much previous EU aid was dissipated on small projects, diverted into consumption or pocketed by corrupt officials. But the current Ecu15bn aid package focuses on a few large transport projects as well as providing funds for modernising industry and training, while controls on disbursement are tighter.

Pressure from Brussels also helps to modernise Greek institutions and business practices to the benefit of local as well as international companies. The prospect of imminent deregulation, not government policy, will force Greece's telecoms and power utilities to reform.

Whatever the problems of competing within a single currency area, Greece cannot afford to remain outside, say Mr Simitis's advisers. A diminished role in the Union would have an immediate political impact, most obviously in relations with its hostile neighbour Turkey.

While Greek companies are starting to invest in Turkey and trade is growing as Turkey's EU customs union takes effect, political relations are more precarious than ever.

Because of continuing tensions in the Aegean, the government has decided to spend an extra Dr4,000bn over the next four years to boost defence.

If fully implemented, the defence spending programme will add to the strain of Greece's effort to reach the Maastricht targets. For Mr Simitis and supporters of Greece's entry to Emu at the earliest possible date, that is a strong argument for reaching an accommodation with Turkey over the Aegean disputes which would allow the development of normal relations.

Costas Simitis with German Chancellor Helmut Kohl: the relationship with the European Union dominates Greece's political and economic agenda

■ **Economy:** by Kerin Hope

Bold bid for Emu

Substantial progress has been made, but Maastricht targets are still distant

Three years of consistent policy-making under the governing Socialists have changed Greece's economic climate. While argument is heated over the pace and depth of structural reforms, doubts are no longer raised about Greece's long-term commitment to stabilisation and eventual membership of the single European currency.

Inflation is on a downward course, the public sector deficit is gradually shrinking and Greece's public debt, among the highest in the European Union, has at last been stabilised.

September's snap election, which from past experience could have derailed budget targets on both spending and revenues, appeared to cause no more than a blip on the finance ministry's charts. Moreover, the Greek business community's decision to support the Socialists at the polls has contributed to a more confident mood.

Greece has shared in the European recovery, maintaining steady if unspectacular economic growth. The economy ministry forecasts a 2.6 per cent increase in gross domestic product this year, rising to 3.3 per cent in 1997.

The Organisation for Economic Co-operation and Development is somewhat less optimistic, projecting GDP growth at 2.3 per cent and 2.5 per cent respectively. But it notes in a recent review of the Greek economy that "output growth of some 2-2.5 per cent yearly could be sustained – a pace that would be superior to the European average".

Yet despite the progress made, Greece is still far from meeting the Maastricht targets for monetary union. It has been definitely excluded from the first stage and must make a sustained effort in the next two years to ensure that it can join with the second wave of entrants.

Next year's targets of slashing the general budget deficit from 7.6 per cent to 4.2 per cent of GDP, and reducing inflation from 8 per cent to 4.5 per cent are the most ambitious to date. There is scepticism even among Socialists that they can be met, given that real wages increased sharply this year and are set to rise again in 1997.

Mr Nikos Christodoulakis, deputy finance minister, argues that improved growth in output will boost revenues. Additional budget income will be provided through new taxes on income from bonds and on property, as well as the abolition of tax breaks for several hundred groups of professional and other workers, including judges, journalists and members of parliament.

Spending increases are to be held below the projected inflation rate, while a freeze on public sector hiring from January will launch a set of institutional reforms aimed at permanently curbing government expenditure. These are to include tighter budget controls on state-controlled health organisations and local government.

"It's important that economic convergence with the rest of the Union should be real rather than nominal," says Mr Christodoulakis. "It's also important that structural reform should be implemented gradually through a consensus approach with a minimum of social friction."

Growth is being fuelled by grants from EU structural funds for infrastructure modernisation. Although disbursement is moving more slowly than forecast, inflows should show a sizeable increase next year as several large transport projects get under way under the supervision of international managers.

The private sector is also benefiting from EU grants for modernising industry which have boosted the amounts of funding available under Greece's investment incentive programme. Private investment is projected to rise by 8.5 per cent in 1997 following an 8.3 per cent rise this year.

However, concern is growing that unless the Socialists overcome their reluctance to impose deep spending cuts or adopt a bold privatisation policy, Greece will be unable to reduce the budget deficit quickly enough to achieve Emu entry by 2001.

Mr Jason Stratos, chairman of the Federation of Greek Industries, called for faster reforms last week: "What's needed at this juncture is a front-loaded package of radical structural reforms that will give a clear message of determination and consistency."

Independent analysts point out that with more than 60 per cent of budget outlays being used to cover the public sector wage and pension bill, there is a pressing need to cut staffing levels in the civil service and transfer state corporations to the private sector.

But opposition from the militant public sector unions makes the Socialists timid about disposing of state enterprises. This year, privatisation has been limited to the flotation of 8 per cent of OTE, the state telecoms monopoly, on the Athens stock exchange and the sale of a handful of companies already under liquidation.

Next year's privatisation programme is also modest. It calls for the sale of the Bank of Crete, which is being returned to the private sector after almost a decade under central bank administration, and for another equity tranche in OTE.

■ **Infrastructure:** by Kerin Hope

Long road to transparency

Private sector management is key to the success of large projects

After delays that in some cases have lasted almost 20 years, Greece has launched a series of large infrastructure projects made possible through grants from European Union structural funds and private financing packages.

Projects like the new Athens international airport, the Egnatia highway linking the Adriatic with Istanbul, and the Rion-Antirrion bridge across the Corinth Gulf are aimed at attracting international investment and making Greece a crossroads for trade between the Black Sea and western Europe.

Infrastructure modernisation is also expected to boost tourism.

The current EU funding package will provide contributions towards a dozen road, rail, harbour and airport projects in the government's Ecu12bn infrastructure improvement programme. Extra funds will come from the European Investment Bank, which is prepared to offer soft loans covering 40-50 per cent of a project's cost, commercial loan packages and contractors' equity contributions.

Putting together this mix of public and private finance has proved time-consuming and all the large projects are running one or two years behind schedule. Moreover, Greece's public works ministry has been slow to overcome the difficulties of organising large construction projects.

"Greek officials were accustomed to handling turnkey projects within a narrow technical and legal framework and had no experience of dealing with equity finance or project lending," says Mr Antony Zioudas, chairman of Kouri Capital, the government's financial adviser for the Rion bridge project.

However, procedures have been speeded up in response to pressure from Brussels to modernise tendering procedures and appoint international project managers for EU-backed transport projects.

Work on the $3.5bn Egnatia highway across northern Greece is moving ahead under the supervision of project manager Brown & Root.

In an effort to avoid delays caused by political interference, EU-backed projects are being undertaken by new companies in which the Greek state holds a controlling interest but management remains in the hands of the private sector partner.

"Traditionally, all decisions related to projects – the route of a road or which companies should build it – would be made on political grounds," says a Greek banker. "Putting transparency into the process has been a struggle."

The Ecu2.2bn Athens airport project will be an important test of the private-public partnership. The Greek state has a 55 per cent equity stake in Athens International Airport, the company which will control the new airport at Spata, east of the capital. The remainder is held by an international consortium led by Hochtief, the German construction group, which is responsible for building the airport and will manage it for a 30-year period.

■ **Banking:** by Kerin Hope

Ripe for restructuring

Reform of the sector is inevitable, but timing is still uncertain

Greek banks' profits (Dr bn)

	1995	1994	% Change
Alpha Credit	50.7	38.0	33.4
National Bank	41.4	50.2	(17.5)
Ergobank	37.4	32.2	16.2
Commercial Bank	26.2	39.3	(33.5)
Mortgage Bank	20.6	[illegible]	[illegible]
Ionian Bank	13.6	13.9	(2.1)
General Bank	[illegible]	[illegible]	[illegible]
Bank of Macedonia-Thrace	3.4	2.9	18.9
National Housing Bank	2.6	1.5	[illegible]
Piraeus Bank	2.3	1.5	50.2
Bank of Central Greece	1.8	1.9	[illegible]
Attica Bank	1.3	1.2	13.3

Source: ICAP Research

Mr Theodore Karatzas, Greece's senior banker, claims with a smile that since taking over as governor of National Bank six months ago he has turned down every request to lend money on political criteria.

"This bank has to forget the past and take a realistic approach to its operations," he says. "This means addressing the problem of bad and doubtful loans, disposing of non-banking subsidiaries and competing more aggressively with the private banks."

National Bank dominates Greece's banking system, with a 40 per cent market share, equity stakes in dozens of local manufacturing companies and more than 500 branches which, in addition to banking activities, also handle salary and pension payments for public sector employees.

However, the bank carries a heavy burden of bad debt arising from a practice, common in the past to state-owned banks, of lending at the behest of politicians.

Operating costs are heavy at state banks too, because a high percentage of employees are political appointees. At National Bank net income per employee is Dr12.9m, compared to Dr28.5m at Alpha Credit Bank, the largest private bank.

"National and the other state-owned banks are not really commercial banks but state agencies that also carry out banking activities," says Ms Claire Gouzouli of First Consulting, the UK banking consultancy.

The sluggish pace of reform at National and two smaller state banking groups, Commercial Bank and Ionian Bank, enables private Greek banks to increase their market share at the expense of state banks and allows foreign bank branches to carve out profitable market niches.

Private sector analysts argue that the privatisation of one big state bank would give the sector a healthy shake-up and encourage reform at another dozen state-controlled banks. The Socialist government says it backs privatisation in the banking sector in principle, but is nevertheless moving with extreme caution.

Commercial Bank is giving up control of Bank of Attica, a small commercial bank, by selling a share package to a Greek pension fund. Agricultural Bank plans to reprivatise Bank of Central Greece, another small commercial bank which was taken under the state umbrella when it was on the point of collapse.

The Bank of Crete, placed under cental bank control after a $200m embezzlement scandal was revealed in 1988, is also being reprivatised. It has been recapitalised and restructured and is being offered for sale with a minimum price-tag of Dr41bn.

"The disposals being planned are fig-leaves," says a private sector banker. "They won't address the real problem, that the banking system in its present form obstructs the efficient allocation of resources and acts as a drag on economic activity."

There is an uncomfortable awareness among Greek bankers that a restructuring is on the way, although the timing is still uncertain and may depend on Greece's prospects for participating in European monetary union. The assumption by the banks is that Greece will eventually join Emu, opening the way for tougher cross-border competition as the drachma's role declines, but that the government's deadline of 2001 is not likely to be met.

"The perception is that Greece is overbanked but underbranched and that we're going to see consolidation, perhaps accompanied by the arrival of more international players," says Mr Haris Stamatopoulos, governor of Ionian Bank.

■ **Greek-Turkish relations:** by Bruce Clark

No room for manoeuvre

Greece demands third-party arbitration, while Turkey insists on bilateral talks

Whatever else Mr Costas Simitis has achieved since becoming Greek Prime minister, he has raised the international standing of a country whose image was badly in need of improvement.

"We have a moderate government in Greece now," enthuses Mr Karl Lamers, a senior German Christian Democrat who made no secret of his delight when Mr Simitis was re-elected in September.

But nearly a year after the softly spoken law professor took over, there is little sign that his moderation – and his belief in the possibility of a normal relationship with Turkey – will be enough to dispel the storm clouds over the Aegean.

Because those clouds look so ominous, the US and its European allies are devoting more man hours than usual to defusing the Greek-Turkish tension which presents the European Union with one of its toughest external problems and could blow apart the southern flank of Nato.

As the EU's relations with both Cyprus and Turkey are approaching a turning point, many observers believe that the Greek-Turkish problem is bound to get better or worse – and only the most determined optimist would lay bets on the former.

Last January's naval showdown in the south eastern Aegean, and the outbreak during the summer of serious intercommunal violence in Cyprus, continue to cast a long shadow over relations between Athens and Ankara.

This in turn has darkened the prospect for full implementation of a customs agreement between the EU and Turkey – which Greece grudgingly accepted in return for a promise of early negotiations to admit Cyprus as a full EU member.

The naval stand-off has added a new, frightening element into the web of Greek-Turkish disputes over airspace, territorial waters and seabed mineral rights which have rumbled on since the two countries came close to all-out war in 1974. In what Athens saw as a broad challenge to in the Aegean, Turkey questioned the validity of the treaties and maps dating from the Italian and British occupations of the Dodecanese, which underpinned the Greek claim to the islet of Imia.

Mrs Tansu Çiller, then prime minister and now foreign minister of Turkey, caused further alarm in Greece by suggesting there were over a thousand other islets in the Aegean whose unresolved status could lead to conflict.

This appeared to be a new twist in Turkey's longstanding threat to go to war if Athens exercises its right under the UN law of the sea to extend its territorial waters from 6 miles to 12, so as to embrace most of the Aegean.

Tension over the status of tiny islets – which many analysts view as a side-effect of the UN law of the sea's entry into force in 1994 – has highlighted a fundamental disagreement between Athens and Ankara over how disputes should be approached.

Turkey has demanded the broadest possible bilateral talks, while Athens, feeling it is on strong legal ground, prefers a step-by-step approach and third-party arbitration.

Greece fears that entering bilateral talks over matters which had not been contested before would give Ankara *carte blanche* to pick new fights.

Against this background, a proposal by the EU's Irish presidency – aimed at unfreezing Greek-Turkish, and hence EU-Turkish relations – has been greeted in Athens with dismay because it emphasises bilateral talks.

Mr Theodoros Pangalos, the sharp tongued Greek foreign minister describes the Irish proposal as "very disappointing" because it implied full acceptance of Ankara's demands.

Mr Pangalos said the Greeks could consider talks with Turkey about other issues if Turkey either withdrew its claim to Imia and other small islands or else presented its demands to the International Court of Justice in the Hague.

"Let them specify their territorial claims, present them to the Hague – once they do so, we can open discussions about everything," said the minister in a view regarded by some Greek politicians as too soft.

Turkey's position is almost the opposite of Mr Pangalos: it does not rule out an eventual recourse to the Hague about a broad range of issues, but it insists on substantial bilateral talks first.

Diplomats say any hopes of these procedural differences are clouded by the internal instability of Turkey and the absence of any room for manoeuvre by Mr Simitis, who is flanked by ministers (including Mr Pangalos) who take a harder line than himself. The same factors prompt many analysts to feel pessimistic about Cyprus, despite the intensive efforts of Britain's special envoy Sir David Hannay and the imminent prospect of a major US initiative. A plan exists for top level talks between the island's Greek- and Turkish-Cypriots next year, in the hope of reaching a settlement before Cyprus joins the EU.

But the bloody clashes of last summer, including the deaths of two Greek-Cypriot demonstrators which were recorded by television cameras in gory detail, have convinced many observers that there are forces on the island who are radically opposed to compromise.

Clashes in Cyprus last summer put further strain on relations

■ **Politics:** by Bruce Clark

Shades of grey

The parties are more difficult to distinguish, but discontent is still in the air

There can be few other countries whose recent political life has been marked by such extremes of blazing idealism and cynicism.

All five of the parties represented in the Greek parliament still include prominent figures who suffered jail or exile during the military regime which collapsed 22 years ago.

But memories of that period, and the left-right passions which gripped the country after the 1946-49 civil war, are fading, leaving many Greeks disillusioned with politics and sceptical about politicians.

One symptom of waning ideological fervour is the fact that the main parties – the ruling Panhellenic Socialist Movement or Pasok, and New Democracy, its conservative rival – have become hard to distinguish.

As the behemoths of political life, which evolved during the 1980s into vast patronage machines, merge into a single shade of grey, their grip over every public institution – from football teams to student unions – is weakening too.

For the left, the intense thirst for revenge (and a slice of patronage) which attended Pasok's first electoral victory 15 years ago has largely been slaked; and for the right, the bogeyman of communism has gone.

As prime minister since January, and president of Pasok since a stormy Congress in June – when he fought off a strong challenge from populist rivals – Mr Costas Simitis has already moved the party from the left to the moderate centre.

The Socialists' electoral base has shifted accordingly. Prosperous Athenians, including bankers and stockbrokers, were among the 41.5 per cent of voters who cast their ballots last September for a party that until only a few years ago was trumpeting radical Marxism.

For Pasok, this translated into a reduced, but still comfortable 162-seat majority in a 300-member Parliament, thanks to an electoral system that favours the top party. But Mr Simitis' blunt calls for belt-tightening, and his bold pledge to avoid bloating the public sector any further, has cost votes on the left.

Three small radical groups made a strong showing in the September poll. The doggedly hard-line Communist Party gained four parliamentary seats for a total of 11; the Left Coalition, a movement with intellectual and Eurocommunist roots returned to Parliament with 10 seats; and nine more went to the new Democratic Social Movement, led by Pasok's former finance minister Mr Dimitris Tsovolas.

"Pasok has transformed from a progressive party to a conservative party which no longer serves the interests of ordinary Greek citizens," declares Mr Tsovolas, voicing the disillusionment of grassroots voters who loved the fiery rhetoric and lavish state handouts of Pasok's early years.

Mr Nikos Konstantopoulos, a similarly eloquent lawyer who heads the Left Coalition, says the prestige of the big parties has fallen because of people's belief that "non-institutional centres of power" are secretly pulling the strings.

As any politically-conscious Greek will tell you, at least one such "centre" is the network of businessmen who dominate public procurement, cultural life and the media.

Other leftist politicians – including Mr Akis Tsohatzopoulos, the defence minister who lost out in last June's leadership contest – seem to be challenging Mr Simitis' moderate line from within the ranks of Pasok.

A recent hardening in the foreign policy pronouncements by Pasok strongmen – including Mr Theodoros Pangalos, the foreign minister and Mr Gerasimos Arsenis, who recently switched portfolios from defence to education – has come as a reminder that Mr Simitis' personal authority has limits.

But whatever challenges confront the prime minister they do not include a credible challenge from the right.

As many of its own supporters freely acknowledge, New Democracy has yet to restore internal unity or ideological coherence since its electoral defeat last September.

A leadership ballot in October gave a narrow victory to the incumbent Mr Miltiadis Evert, a former mayor of Athens who has cultivated a tub-thumping style of oratory and criticised Mr Simitis for being too soft with Turkey.

But a party congress next spring is widely expected to bring a rerun of last October's contest: Mr Evert versus Mr George Souflias, a former education minister whose ideology is hard to distinguish from that of his boss.

New Democracy's reluctance to break with the big-government lobby and the public sector unions is a source of frustration to a small band of free-market liberals, such as Mr Andreas Andrianopoulos, who recently left the party.

The reluctance of the big parties to court controversy, and the public's diminishing appetite for noisy slogans, would seem – on the face of things – to portend the onset of a more low-key brand of politics in Greece, more like northern Europe.

But nobody is counting on this. As Greece's public-sector employees and small businessmen – long cushioned by the policies of major parties – feel the chilly winds of European competition, a groundswell of discontent could build up which no party (with the possible exception of Mr Tsovolas) can properly articulate. "There are pent-up frustrations which have not yet been manifested," says political science professor Nikiforos Diamandouros. He says Greece's real divide is not between left and right but between winners and losers from modernisation. The latter, he warns, may well outnumber the former.

PROFILE Intracom telecoms supplier

International call

Expansion across the Balkans is the telecoms firm's favoured strategy

Greece has become too small a market for Intracom. The Athens-based telecoms equipment supplier, which last year installed a new communications system for the Kremlin, has ambitions to become a telecoms operator across the Balkans.

From modest beginnings in the 1970s as an equipment importer for OTE, the Greek state telecoms monopoly, Intracom has grown into a specialised electronics manufacturer. It makes digital switching systems in co-operation with Ericsson of Sweden, which holds a 14 per cent equity stake.

Intracom also produces cardphones as well as pulse code modulator (PCM) transmission systems.

OTE is still Intracom's main customer through a Dr650bn investment programme aimed at digitalising Greece's entire fixed-wire network by the end of the century. Intracom and Siemens Hellas, the local subsidiary of the German electronics group, between them supply OTE with almost all the equipment needed to upgrade the network.

However, the company's close relationship with OTE and some activities in the Balkans have sparked controversy. Intracom and Siemens Hellas were accused of bribing OTE officials in order to secure a Dr40bn contract for installing digital lines. Intracom's joint venture with the Bulgarian PTT, Bulfon, has come under attack on grounds that it may have an unfair edge in bidding for a mobile telephony licence.

Mr Costas Tsoukalidis, Intracom's general manager, brushes aside charges of unfair practices. "It's not easy for a smaller telecoms company to win recognition as a international player," he says. "Your competitors are much more inclined to declare war on you."

Intracom is nonetheless trying to reduce its dependence on OTE and diversify into other areas. It has joined a team led by Hughes of the US to manufacture an advanced version of NATO's SeaSparrow missile and has other projects in the pipeline with Northrop Grumman of the US and Thomson-CSF of France.

Intracom last year increased exports by 70 per cent to Dr11.5bn, 27 per cent of sales. This year exports are projected to reach Dr14bn.

Kerin Hope

Sailing into profit

Attica Enterprises, a newcomer to Mediterranean passenger shipping, has invested heavily to demonstrate that Greek ferries need not be elderly, uncomfortable and slow. In late 1993, the company ordered two new fast ferries from Germany at a total cost of $120m in order to operate a daily service between Greece and Italy. The ferries started running in May and July 1995.

Less than 18 months later, Attica's pair of identical luxury ferries had captured a 45 per cent share of tourist and truck traffic between Patras in western Greece and the Italian port of Ancona, the most popular route across the Ionian Sea.

The SuperFast I and SuperFast II have the advantage of being specifically designed for the Ionian crossing, while almost all their 30-odd competitors are slower secondhand vessels which are also operated in the Aegean islands.

"We focused on the Ionian sea bridge because it became the main transport link between Greece and the European Union after the break-up of Yugoslavia," says Mr Pericles Panagopoulos, Attica's chairman. "We don't believe this will change, even after peace in Bosnia."

It takes the SuperFast ferries 20 hours to cover the 500-miles between Patras and Ancona, compared to 30 hours for the average passenger ship. The speed is important to Greek exporters of fresh fruit and vegetables or of textiles for clothing manufacturers. It also gives tourists an extra day's holiday.

Mr Panagopoulos drew on his background in the cruise industry in setting up the SuperFast operation. After selling his cruise company, Royal Cruise Lines, he acquired control of Attica, a holding company listed on the Athens stock exchange, as a vehicle for entering the ferry market.

Attica showed net profits of Dr3.7bn on sales of Dr10.9bn for the first nine months of 1996. The SuperFast ferries carried almost 175,000 passengers during that period, as well as 32,000 trucks and 38,000 cars and camper vans, equivalent to about 12 per cent of overall sea traffic between Greece and Italy.

To expand its market share on the Greece-Italy route, Attica has placed a $200m order with the Kvaerner Masa Shipyards in Finland for a second pair of fast ferries. They are due to start operating in 1998 on another route across the Ionian.

Kerin Hope

SuperFast ferries have cut 10 hours from the Greece-Italy crossing

Government and constitution

Head of state
President Costis Stephanopoulos

Head of government
Prime minister Costas Simitis (PASOK)

Ruling party
Panhellic Socialist Movement (PASOK)

National legislature
Unicameral Vouli (parliament) of 300 members directly elected by a form of proportional representation for a four-year term, although early dissolution is possible. President, without executive powers, elected by parliament for a five-year term.

Main political parties
Panhellic Socialist Movement (PASOK); New Democracy (ND); Greek Communist Party (KKE); Coalition of Left and Progressive Forces (Synaspismos); Democratic Social Movement (DIKKI)

Elections
Last election: September 22 1996
Next election due by October 2000

Economic summary

	1996 (f)	1997 (f)
Total GDP (Dr billion)	10,087	10,815
Real GDP growth (annual % change)	1.9	2.4
GDP per head ($)	11,411	11,957
Inflation (annual av. % change in CPI)	8.4	6.8
Agricultural output (annual % change)	1.9	1.9
Industrial output (annual % change)	1.9	2.2
Unemployment rate (% of workforce)	9.8	10.0
Money supply, M2 (annual % change)	8.9	8.7
Public sector borrowing requirement (% of GDP)	-8.0	-6.3
International reserves ($ million)	14,900	13,400
Current account balance ($ million)	-5,006	-5,636
Merchandise exports ($ million)	6,100	6,673
Merchandise imports ($ million)	-21,978	-24,156
Merchandise trade balance ($ million)	-15,878	-17,483

(f) forecast

Sources: Economist Intelligence Unit; World of Information

■ **Tourism:** by Kerin Hope

Sun, sand and services

Popularity means smaller islands are having to install new infrastructure

Tourism has not only rescued the Aegean islands from poverty and the threat of depopulation but has transformed them into valuable assets.

While the number of tourists visiting Greece fell by 5.2 per cent to 10.7m last year, the Aegean islands saw an increase of about 7 per cent to an estimated 3.5m.

Greek tour operators are forecasting another drop in arrivals this year, but many Aegean hoteliers have reported an even better season.

It is not just islands such as *Mykonos and Santorini*, which have an international reputation for dramatic scenery and boisterous nightlife and together attract 1m visitors yearly, that have benefited from steadily improving air and sea transport links.

Smaller islands in the archipelago, like the once-neglected Koufonisia group, are increasingly sought out by tourists seeking uncrowded beaches and quiet tavernas.

"For more than 20 years there was a heavy flow of emigrants from the islands to Athens," says Ms Elisabeth Papazoi, minister for the Aegean. "But the trend towards depopulation has been reversed. Young people are staying to work in the tourism industry and the emigrants are investing in improving their properties on the islands."

Ms Papazoi is responsible for 48 islands with a year-round population large enough to elect a local council, "another 10 where a few sheep or goatherding families live and about 3,000 or so uninhabited rocks of different sizes". Their total population is 450,000, but this figure quadruples during the four-month tourist season.

Regardless of size or scenery, the most popular islands are those within four or five hours' sailing time from Athens or with airports large enough to take charter flights from northern Europe.

Many small islands still look desolate, with hillsides lined with crumbling terraces where cultivation was abandoned, overgrown threshing floors and deserted villages. However, land prices have soared even in remote areas and Aegean builders and renovators are busy enough to employ *immigrant workers from east Europe*.

The government's priority until recently was to expand airport and harbour facilities, provide basic health care and ensure that all 48 larger islands had enough teachers to keep a high school open.

Electricity supplies are becoming more reliable as the islands are gradually linked to the mainland grid through a network of undersea cables. Telecommunications compare with western Europe as the Aegean islands were given precedence in Greece's digitalisation programme.

While the infrastructure improvements have made it possible to cater for more tourists, the increasing pressure of numbers puts a severe strain on water supplies and often primitive facilities for sewage and rubbish disposal.

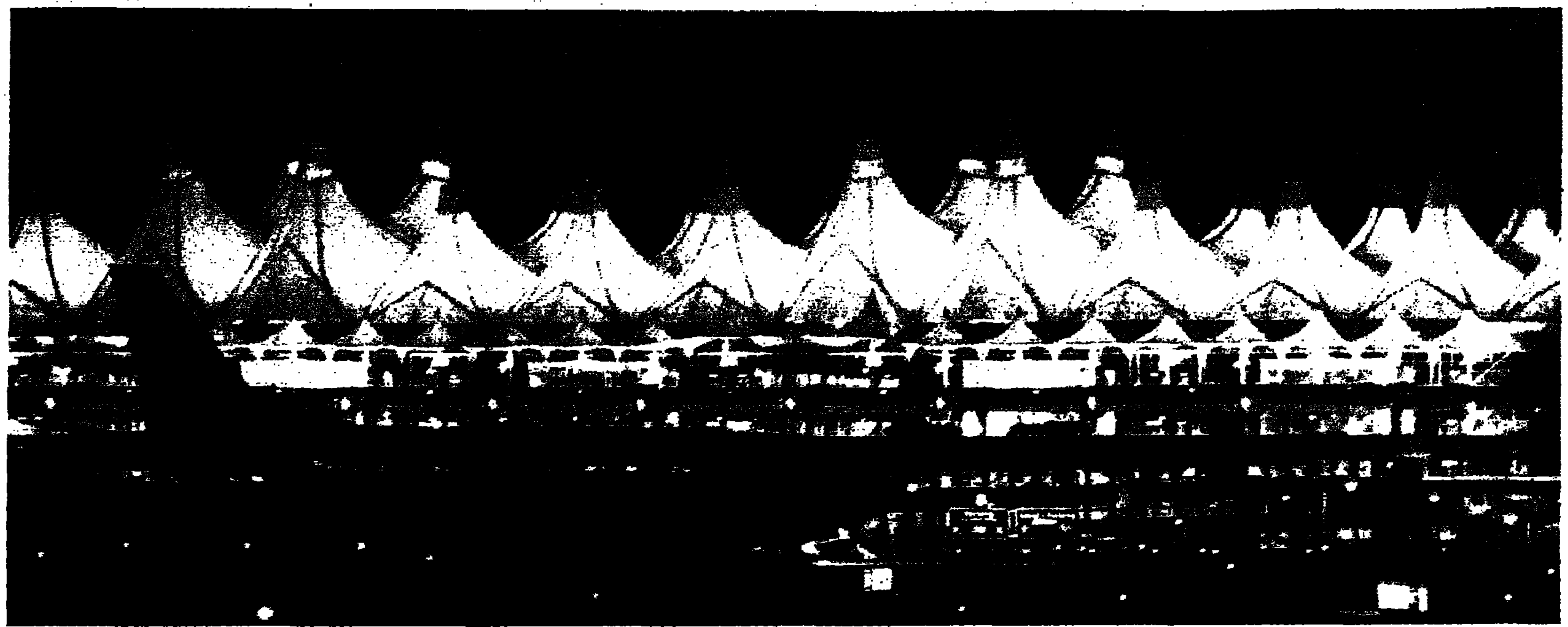
Mr Miltiades Sarris, mayor of Simi, a small island where tourists pay high prices to stay in renovated mansions built by 19th century shipowners, says: "Even in winter most of our water is shipped in by tanker and stored in cisterns that are too close to peoples' cesspits. To maintain the high quality of services that we've built up, we need central government help to explore for new wells and build rainwater catchments."

The government plans to install new cistern and catchment systems and build a series of small dams on a model developed in Cyprus, an island that gets even less rainfall than the Aegean. Over the next five years biological treatment plants for sewage and new rubbish disposal units will be built on all the larger islands at a cost of more than Dr200bn.

The Aegean will remain primarily a sun-and-sea tourist destination, but Ms Papazoi says efforts are being made to extend the tourist season by putting the archipelago on the international cultural and environmental map. "Information about the Aegean, whether it is flowers and birds, antiquities and monuments or details about hotels and ferry schedules, is fragmented and incomplete," she says. "We plan to catalogue all the historic sites, carry out environmental surveys of large and small islands and set up an English-language database on the region."

Paxos: smaller islands are increasingly popular

Sarah Murray



Airports are poised and ready for take-off

Privatisation and competition have provided a special opening for the expansion of retailing and the development of centres for regional travel and communications, writes Michael Skapinker

Sell airlines, buy airports. This was the advice given to investors at a conference last month by Mr Rigas Doganis, professor of air transport at the UK's Cranfield University.

Airlines struggle to make money even when business is booming and their seats are full. Most of the world's airports, on the other hand, have barely begun to exploit their full commercial potential.

Some airport groups, however, realise that strong potential exists and are lining up to buy airports in Europe and in the rest of the world.

Prof Doganis told a conference organised by Airports Council International in Switzerland last month: "In 10 to 15 years we may well see five or six very large European airport companies, with each owning 10 or more airports in several countries."

With governments preparing to privatise airports or bring in outside management in Australia, the US and South Africa, this process of consolidation will be extended further than Europe.

What do airports have going for them? First, there are too few of them. The number of people flying worldwide is expected to increase from 1bn today to 2bn or even more over the next 20 years. In most other industries, this expected doubling in business would lead providers to build new facilities to meet the increase in demand. Many airport groups and governments would like to do the same. Life in the airport business, however, is not that easy.

Airports create noise, congestion and pollution. Any proposal to build a new airport, terminal or runway is guaranteed to provoke furious opposition from local residents and environmentalists.

Airport plans have to be defended at public inquiries in many countries, a time-consuming process. In the UK, BAA, which owns London's Heathrow, says it expects the public inquiry into its plan to build a fifth terminal at the airport to last two-and-a-half years.

This means that existing airports will have to accommodate more and more people. Yet, while this creates discomfort for those who fly and delays for airlines, for the airports the increasing number of passengers presents endless commercial possibilities.

The key for airports is to see airline passengers as more than holidaymakers or business travellers; they are also shoppers, diners, gamblers, drinkers and even golfers.

Airports such as Heathrow and Gatwick in London and Schiphol in Amsterdam are already vast shopping emporia. BAA's seven UK airports sell over 20 per cent of all perfume sold in the UK. BAA has begun to take its retailing skills abroad.

It is also responsible for the retail operations at Pittsburgh airport in the US and for all operations, including retail, at Indianapolis airport.

The idea of airports as places of entertainment is exemplified by Schiphol and Changi airport in Singapore. Schiphol has a casino and a virtual reality golf range. The golf range allows passengers to choose one of the world's famous courses. They then play it by hitting the ball against a picture of the course on a screen. The ball hits the screen and then appears to sail through it as if they were playing the course itself. Changi has a karaoke bar and a swimming pool and jacuzzi overlooking the runway.

These airports are more sophisticated in their approach than many of their competitors, even in advanced economies, such as the US and Canada. But their strategy is likely to spread elsewhere, even to smaller airports in regional centres.

Kai Tak, Hong Kong: a second airport is on the way *Reuter*

As governments privatise airports, the larger and more successful groups will increasingly take over their operations, forming bigger airport companies. Prof Doganis believes that regional airports, seeking to increase their share of passengers, will seek alliances with larger groups.

Prof Doganis says: "On the financial side, alliances may have two possible advantages. As part of a larger grouping, individual airports may find it easier to raise money in the commercial money markets, hopefully at lower interest rates than would otherwise be the case. If privatisation is the aim, then again a smaller regional airport may be easier to privatise if it is part of a group which includes one or more larger airports. One could even imagine a situation where regional airports act as franchisees of large well branded and successful airports. Schiphol or BAA might franchise airports in which they have no shareholding to operate under their brand for a certain fee.

"In return, they would help the franchisee with improving its facilities and service standards. A branded regional airport would become more attractive to potential airline customers while its ownership remains unchanged."

While the increase in passengers presents airports with an attractive market for their shops, restaurants and entertainment facilities, they cannot afford to ignore the discomfort caused by a parallel increase in overcrowding.

At airports such as Heathrow, Schiphol and Changi, many of the passengers are in transit, using the airport to change flights. If they believe one airport is overcrowded and uncomfortable, they can use another. This is not a problem for Changi, which operates at well below its capacity and is planning a third terminal. It is a serious problem for Heathrow, however, which is severely congested.

Sir John Egan, chief executive of BAA, believes airports will have to improve their customers' comfort in several ways, beginning with the check-in process, currently one of the most time-consuming and anxiety-provoking activities at any airport.

Sir John says: "Check-in is a horrible process for most people. I think we'll see it disappearing over time."

He says BAA's customer research shows that queueing at check-in counters is one of most difficult aspects of flying for many passengers. They worry about whether they will get on their flight and whether they will get the seat they want.

Sir John believes help is at hand. The trend towards ticketless travel will continue, he says. Instead of handing over a ticket, passengers will present a credit card when they arrive at the airport. Many will, in fact, check in before they reach the airport. Check-in at hotels, at airport car parks and at railway stations will become more common, he says.

He says that the security obstacles can be overcome. But many industry observers believe that airports will remain targets for terrorism. Staff checking in luggage away from the airport will have to have the means to ensure that the process does not imperil the safety of passengers.

Many airports are formulating their strategies to take account of another development: that airports are becoming the centre of transport hubs, connecting, in particular, with railway systems. Mr Richard Branson, chairman of Virgin Atlantic, the independent UK carrier, is one airline executive who is integrating his activities with new railway developments. He is part of a consortium running the Channel tunnel trains and is planning to develop a new railway service between Heathrow and the City of London.

In continental Europe, Charles de Gaulle airport in Paris sees itself as being at the centre of a vast communications network, with the airport connected to the TGV high speed train service. Schiphol calls itself a "mainport" rather than an airport, with rail connections bringing passengers in to catch their flights. Those airports which are not connected to fast rail connections could find themselves losing passengers.

IN THIS SURVEY

Picture: Denver Airport

■ **Security:** by John Westbrooke

Still in the shadow of Lockerbie

As measures become tougher, the more passengers tend to grumble

When Pan Am flight 103 was brought down by a bomb over the Scottish town of Lockerbie in December 1988, killing 270 people, it concentrated the minds of air transport authorities everywhere on the question of security. In the years since then, travellers will have noticed that much has changed – but much more has still to be done.

This year, an Israeli reporter succeeded in smuggling a dummy bomb on to an El Al flight in Tel Aviv – among the world's most safety-conscious airlines and airports. Italy's interior ministry discovered that X-ray machines at Milan's airports were unable to detect weapons in hand baggage. A British TV journalist breached security at Manchester airport. And those are just examples from technologically advanced western countries.

Nonetheless, Britain has led the way in making the skies safer. About half of Britain's 33 international airports have state-of-the-art CTX 5000 baggage screening machines, more than the rest of the world put together, and the Department of Transport, which sets security standards, hopes all will soon install them.

The department began to require baggage reconciliation – linking all luggage to passengers, with thorough searches of unaccompanied bags – in 1994.

It has introduced a new cargo regime of authorised handling agents; and it is shortly to take over the hiring of security staff, with rigorous checks against police and security records.

Responsibility for security is shared with police (the Metropolitan Police, for instance, provide the armed guards at London Heathrow); airlines, which screen hold baggage; and airports, which cover cabin baggage. BAA, the British Airports Authority, provides the equipment at the seven big airports it runs, generally choosing between the sophisticated but slow CTX 5000s, which can spot plastic explosives, and the quicker Vivid systems, which look for weapons in bags as they roll past.

BAA says all transfer baggage (the source of the Lockerbie bomb) is now screened, as is all baggage to "high-risk" destinations such as the Middle East and most of the rest, too. Soon, all will be.

Regional airports also have a part to play. As Mr Bill Aitkenhead, chief executive of Cardiff International Airport, says: "We're very conscious that anyone intent on doing something illegal may try to use smaller airports, so we're doubly vigilant.

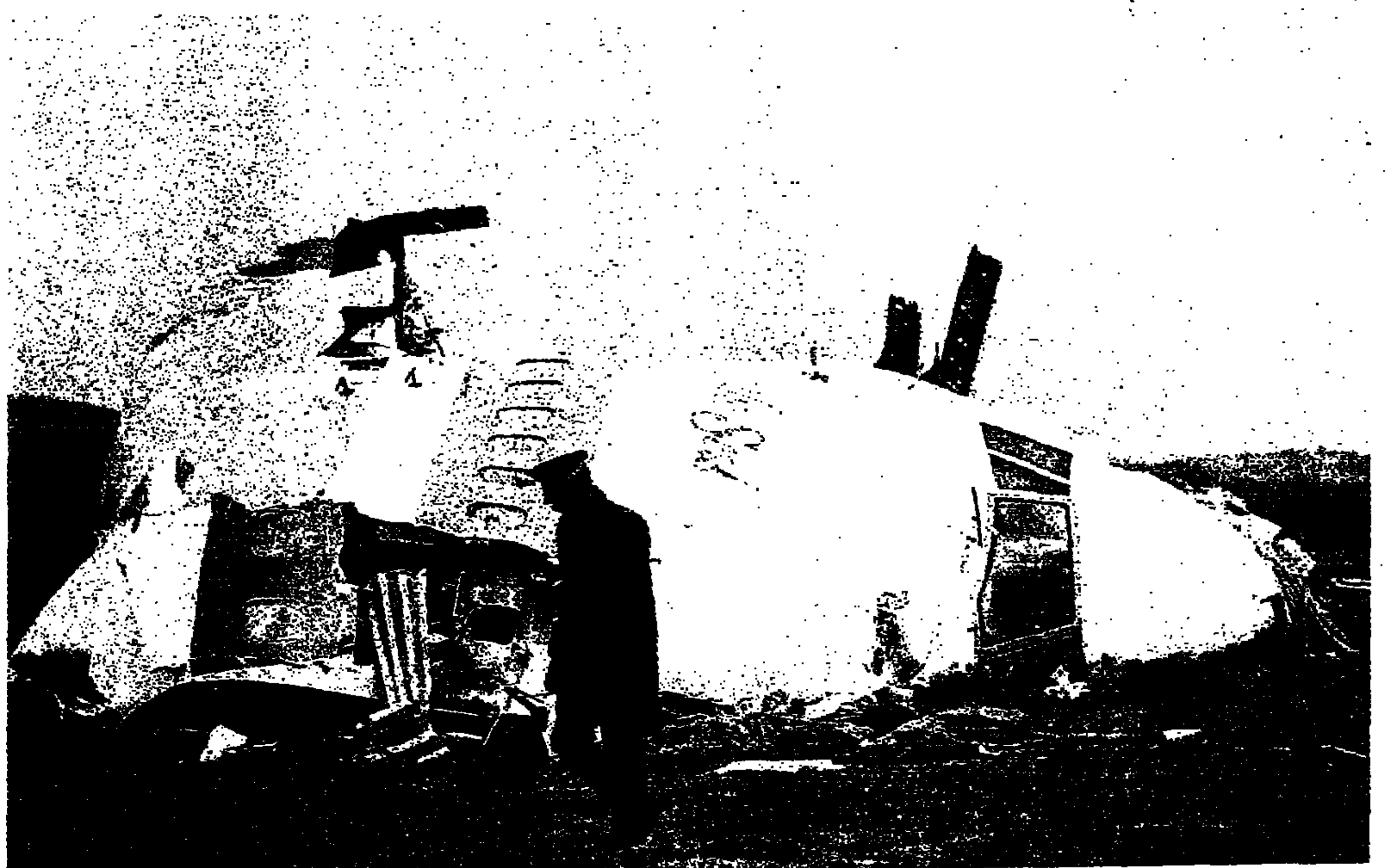
"Regional airports are extremely conscious of the role they play in national security." Cardiff staff work in alliance with customs and immigration staff to scrutinise both inbound and outbound flights.

Ironically, although most security hardware since Lockerbie has been developed by US manufacturers, the US itself has dragged its heels on requiring its use and airlines, often strapped for cash, have not rushed to introduce it.

After the unexplained downing of TWA flight 800 off Long Island in July, with the deaths of 230 people, it emerged that American airport security was dismal. Federal agents on monitoring duty had frequently evaded security checks, beating the system in 15 out of 20 airports. In 1993, one even got into an aircraft's cockpit, leaving a note there to prove it.

The TWA crash spurred the setting up of a panel under vice-president Al Gore. Its recommendations included developing and installing better bomb detectors, more interviews with travellers, and establishing a computer profiling system able to track the travelling patterns of passengers who might be suspected of terrorist activities.

Travellers at US airports should already be noticing the difference.



Pan Am flight 103: since that disaster advances have been made in tightening security measures, but there is still a long way to go

Abroad, Washington takes a tougher line. The US Federal Aviation Administration makes public assessments of its counterparts in other countries. Airlines from countries in category 3, the lowest, may not fly to the US, and those in category 2 are subject to close FAA scrutiny. This has had political repercussions, especially in Latin America, where only government intervention stopped Venezuela from being demoted to category 3. Israel, on the other hand, quickly negotiated an upgrade to category 1.

Israel probably offers the best glimpse of the future of flight security. Though it prefers not to discuss it, the state airline, El Al, is famous for the stringency of its security checks, which come into force when passengers have already cleared normal airport security.

They will typically find themselves answering a lot of questions and having baggage thoroughly searched, all by Israeli citizens. This may mean checking in earlier than usual; but, at the same time, the airline believes passengers appreciate the reasons.

Calculating what passengers will stand for remains a challenge. Too much attention and they grumble (for example, the policy at Canadian airports of confiscating aerosol insect repellents does not always go down well). Too little and they may become fearful. The search is always on for quicker ways of letting them travel in safety, for faster screening machines with sharper eyes.

The UK Department of Transport records 41 "reported serious incidents worldwide" in 1995-96, up from 37 the previous year, not much when compared with the total amount of air travel but enough to make the headlines when one takes place.

Each time it happens, the public becomes readier to accept tighter security measures. Lockerbie casts a long shadow.

■ **Airport operators:** by David Carter

Broader horizons beckon

Private sector disciplines are introducing a wide range of new activities

Growing economic pressures are placing the often cosy relationships between national, state and local governments and their airports under strain. It is clear the cash-strapped public sector *finds it increasingly difficult* to meet the demands placed by the relentless growth of air traffic and travellers' rising expectations.

Faced with competing demands on public finances and with the high cost of airport expansion and lured by the prospect of spin-offs from a sale, municipal minds are being focused, and even changed, across the world. The slow liberalisation of air transport is also nudging officials in Europe.

The process started in 1987, when seven UK airports, including London's Heathrow and Gatwick, were transferred to the private sector with the flotation of BAA. Its subsidiary BAA International is leading a timely, but cautious, foreign expansion to catch the most promising airports following the same path.

Several other airports have been privatised or semi-privatised, including Belfast, Brussels, Cardiff and Copenhagen. Airports in Argentina, Bolivia, Brazil, Chile, Ecuador, Germany, Indonesia, Japan, Mexico, Poland, Portugal, Russia, Taiwan, Turkey and Venezuela have or plan more private-sector involvement.

Airports are learning to act more commercially in their evolution from simple public utilities. The most common start is by contracting out services such as ground handling, cleaning and fuelling.

Other methods include public-private joint ventures, leases, and privately-funded expansion projects, usually using build-operate-transfer and its hybrids.

Many public airports have outsourced. Some, such as Singapore, have been corporatised, and a few have been privatised.

But no matter what the public/private mix, various airlines, construction companies, consultants, developers, investors, manufacturers and operators are showing keen interest in the opportunities.

Some publicly-owned operators such as Aena, Aéroports de Paris (AdP), Amsterdam Airport Schiphol (AAS), Flughafen Frankfurt-Main and Aer Rianta are building on their consultancy services to offer operations and management capabilities.

AdP and AAS, for example, have signed contracts at St Petersburg (Russia) and Cartagena (Colombia) airports respectively.

Private capital tends to come with management as a matter of course. So it is with BAA which dropped its overseas consultancy work three years ago to concentrate on possible equity ownership, or management contracts which might lead to ownership.

BAA first took this approach to the US, home to 50 per cent of the world's aviation activity.

Most US airports plough back any surpluses and top them up with grants and bond issues to fund large expansion. Many remain production-led, unimaginatively marketed and surprisingly spartan. Airport charges (such as terminal rents and passenger handling fees) are often pushed up to offset shortfalls in retail and other revenues. Noting these drawbacks, the Senate has approved the trial privatisation of five, yet unnamed, airports; each new lease must be approved by two-thirds of that airport's airlines.

After securing contracts at Toronto, Burbank and several other airports, US private-sector operator Airports Group International (AGI), whose partners include Soros, General Electric, Bechtel and DFS, expects more. "What we're offering is the capital, expertise and flexibility of the business world," says Mr Pat Cowell, president of AGI.

"We bring private-sector disciplines and a sharper focus," says Mr Roger Kitley, managing director of BAA International. At Pittsburgh, BAA has secured a 15-year contract to manage its air mall. Its flair for retail management (44 per cent of the company's revenue) has brought in names such as Bally, Ciro, Tie Gap, Speedo, Waterstone's and TGI Fridays. Retailers are obliged to charge high street prices.

Pittsburgh now has over 100 retail and catering outlets. Spending per passenger has risen from $2.40 to $7 in four years, despite the small proportion of international traffic. Sales per square metre are three times those of typical US shopping centres. As at Gatwick, thousands of people a year come simply to shop, eat and watch aircraft.

As part of the sweeping privatisation programme introduced by the mayor, Mr Stephen Goldsmith, BAA has signed a pioneering 10-year contract to operate and manage Indianapolis International Airport, four reliever airports and a heliport. "Amazingly, the fact that we're British was never a major issue," says Mr Kitley.

The airport authority retains ownership and could get $70m from higher revenues and lower costs. Airlines and taxpayers benefit too, as does BAA which could earn more than $30m. Again, BAA's formula has been to get the tills ringing, mainly by bringing in and reorganising, international, national and local outlets and brands.

Both airports act as a showcase for expansion in the US and, of course, expertise flows both ways (Indianapolis has taught BAA lessons about snow clearance). Exchanges of skills, staff and ideas look set to grow.

BAA, National Express, the UK coach operator, and others are bidding in the initial tranche of 49-year airport leases offered as part of Australia's delayed privatisation programme. Melbourne, Brisbane and Perth airports go first. BAA also hopes to expand in Italy, South Africa and Asia.

National Express is trying to maintain its own virtuous spiral of low charges, low fares, high throughput and healthy retail sales. The privatised transport group has vigorously pursued its airports side by buying underfunded East Midlands and Bournemouth airports, investing heavily, and turning them round. Its consultancy arm has signed a one-year contract to manage a former US Navy base in the Philippines, Subic Bay International Airport.

"We're taking our core skills to new markets," says Mr Ernie Patterson, chief executive of National Express Group. "We're open-minded about management contracts, joint ventures and acquisitions."

Airports are reluctantly following airlines to the private sector with foreign companies hoping to help them face regulatory, cultural and other hurdles. "The biggest barrier we face is politics," says Mr Kitley. "Privatisation is an offensive word in some countries, but there's a real momentum. The train has left the station."

David Carter is proprietor of Airstream Media Services

Baggage-handlers at Heathrow: lost luggage a nightmare of the past?

Sarah Murray

■ **Baggage handling:** by Catherine Chetwynd

Against travelling light

Automation should increase security and ensure the safe arrival of luggage

The ultimate in lost luggage must be the man whose suitcase followed him around the US for some days, before finally being delivered to him on board a cruise ship in the arms of a flight attendant suspended from a helicopter.

It is the traveller's nightmare to arrive at his destination, only to discover that his suitcase has arrived elsewhere. But thanks to today's technology, and in particular the bar code, this should be a thing of the past – it is to be hoped.

In theory and ironically, your suitcase can only be on the wrong flight if you are on the wrong flight with it.

Apart from customer service, the other important luggage issue is security.

A positive bag match system, which prevents an aircraft from departing with checked-in baggage in the hold but without its owner in the cabin, is vital.

The administrative problem is that, once travellers and their cases have been separated, luggage and passenger data for both transiting and originating travellers must be reconciled before take-off.

Effecting this manually *puts undue organisational* and financial strain on airports.

And asking passengers to identify baggage on the tarmac can be inconvenient for passengers, airlines and handling agents alike, especially in bad weather.

One of the first to use a largely automated system was Amsterdam Airport Schiphol, which introduced its technology in the mid-1980s.

Labels with a bar code are attached to luggage and these are read by the system which transports cases to the level where they are gathered for the flight. Here, *baggage handlers load them* into carts.

Transiting items which have come from an airport with a less sophisticated set-up are relabelled at Schiphol so that they can be handled by the automatic equipment.

*This has been comple*mented by more recent technology and the licence plate concept, which prints a tag with a dedicated number for each case, plus the travelling record of the passenger, so that when luggage is loaded on to an aircraft, it is linked to its owner and ground staff know whether that traveller is on board.

Frankfurt's fully-automated system was designed because of a projected increase in traffic which, combined with manual baggage reconciliation, threatened the airport's guaranteed minimum connecting time of 45 minutes.

Like the Dutch version, the German airport's technology generates a dedicated tag with bar code for each *checked-in item and details* are stored in the computer.

Cases checked in by transferring passengers receive *the same treatment.*

Airlines traditionally monitor whether checked-in passengers are on the aircraft by collecting boarding passes.

These days, in some cases, travellers feed an automated ticket and boarding card with a magnetic strip into a reader, ensuring quicker and more accurate collection of information.

Meanwhile, baggage handlers scan each tag using bar code readers attached either to PC computer terminals in *the baggage make-up areas,* or to radio data terminals at the side of the aircraft.

The two lots of information are then married up before take-off and the system warns airline staff when luggage and its owner are not on the same flight.

Apart from reducing security risks, this also allows the airport to provide more efficient service to passengers.

This is, however, a level of efficiency that was notable by its absence at London Heathrow's Terminal 4 earlier this month. Frankfurt's system was adapted for British Airways at London Heathrow and Gatwick and Manchester – as passengers discovered to their cost when thousands of bags were caught in a backlog. The problem was created by a computer software fault, which meant luggage had to be checked manually before being loaded on to the aircraft. A partial solution was found through the use of "manual overriders", otherwise known as baggage-handlers.

Called Libra in this country, the system has been in *use within the airline* for two years, and was installed in Terminal 1 in June this year, and in Terminal 4 more recently.

It is supposed to allow the airline to replace a manual reconciliation process involving endless paper lists from which suitcase numbers were checked off individually, with a system that allows direct and transfer baggage to be mixed, providing more accurate and streamlined aircraft loading.

It is linked to the check-in and boarding process to ensure passengers checking in luggage actually board the flight.

Terminals 2 and 3 are to follow, and a luggage transfer tunnel is soon to be opened between Terminal 4 and the other three terminals, to improve baggage handling and allow computerised reconciliation throughout the airport.

And if the allegedly impossible does happen, it will be technology which searches for your bag. Travellers' details and *a description of* their cases are logged into a computer.

Unclaimed luggage worldwide is recorded in the same system, so details of missing items are married up with those dispossessed and the airline is alerted if any match.

According to the International Airline Passengers Association (IAPA), 95 per cent of luggage is found within 24 hours, with overall 97 per cent returned.

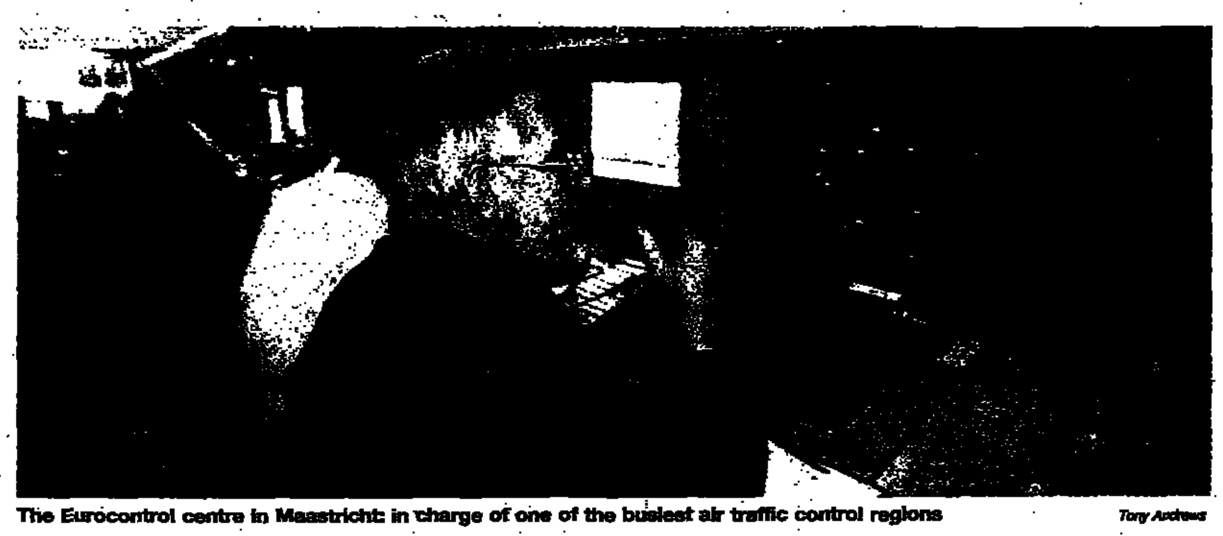
Cynics might suggest that if computers lose cases, and more computers find it, we might be better travelling with virtual luggage...

Catherine Chetwynd is a freelance business travel writer

■ **Eurocontrol:** by Michael Donne

Close watch on the fast lanes

Harmonising and integrating systems should ease congestion and reduce costs



The Eurocontrol centre in Maastricht: in charge of one of the busiest air traffic control regions *Tony Andrews*

Keeping tight control over delays generated by congestion, while maintaining the highest possible levels of safety, is a prime objective of all involved in European aviation – and this in one of the busiest air traffic regions of the world.

Although delays are far from being eliminated, considerable progress has been made in upgrading and harmonising Europe's air traffic control systems. This is to help reduce them, while at the same time preparing for continued future growth in the volume of traffic, currently running at nearly 7m flights a year.

This task is being undertaken by Eurocontrol (the European Organisation for the Safety of Air Navigation). That body was originally set up in 1960 by six European states, including the UK (today it has 23 members), to look after en route air traffic in the upper airspace over much of northern Europe (with some other functions, including collecting en route air navigation charges from the airlines, undertaking ATC training and conducting ATC research).

By the late 1980s, however, air traffic had grown to the point where the capacity of the ATC infrastructure to cope was severely strained, causing serious congestion and delays, especially during busy summer months.

In 1988, therefore, the transport ministers of the European Civil Aviation Conference (ECAC – itself representing the governments of then 23, now 33, states) decided that, because of the growing problems of aerial congestion throughout Europe, threatening severe financial penalties not only to airlines and passengers but also to the economies of the countries concerned, a radical reconstruction of the European ATC system was necessary.

From that emerged in 1990 what is called Eatchip – the multi-billion pounds European ATC Harmonisation and Integration programme. The ECAC strategy defined harmonisation as developing an operational ATC system compatible throughout Europe, and integration as ensuring the maximum possible use of the available airspace, functioning as though it were a single airspace instead of a multinational one. The task was given to Eurocontrol as the most appropriate available body to undertake it.

Through the 1990s, Eatchip has subsequently evolved in two areas. One has been the progressive centralisation of the "flow management" element of air traffic handled by the many ATC centres throughout Europe into one single unit – the Central Flow Management Unit (CFMU), based at Haren near Brussels Airport.

The second has been the parallel introduction of measures to increase overall ATC capacity itself – enabling the best possible use of the available airspace so as to accommodate the increasing volume of flights.

The CFMU itself became fully operational at Haren earlier this year, and is now responsible for smoothing the flow of nearly 7m flights a year throughout the European airspace. The concept of Air Traffic Flow Management (ATFM) is complementary to Air Traffic Control itself, and is in no way a substitute for it. The 65 ATC Centres located throughout Europe (measured in traffic terms as 16 "high density" – including London, Paris, Brussels, Amsterdam and Frankfurt – 45 "medium and low density" and 4 "very-low density") with their associated radars and radio telephony and ground telecommunications facilities, are still essential for monitoring and controlling traffic both en route and in terminal areas around airports.

What the CFMU, using ATFM techniques, does is to ensure that the complex webs of en route traffic flows throughout Europe are efficiently co-ordinated and managed, using all the available ATC capacity, whilst preventing overloading situations at individual ATC Centres, thereby reducing delays.

In addition to the upgrading and expansion of outdated and inadequate ATC Centres, thereby improving their individual abilities to cope with traffic growth, many new developments have been undertaken through Eatchip, including the introduction of some 70 modern new radars; the introduction of new operational concepts such as the Flexible Use of Airspace (FUA, whereby all airspace is no longer designated as either purely civil or military but rather considered as a continuum, being allocated as and when according to specific individual user requirements); a reduction in separation distances between aircraft in flight; and the introduction of new techniques such as the Integrated Flight Plan Processing System which is responsible for accepting, checking and distributing the aircraft flight plans to all ATC Centres throughout Europe, thereby making the processing of millions of flights a year simpler and more efficient by eliminating duplication of effort.

Of course, as every air traveller knows, delays still occur, for a variety of reasons, such as bad weather (fog and snow can still cause problems), and local industrial disputes (over which ATC has no control), quite apart from the continued traffic growth both in the air and on the ground (airport congestion is also a problem in some areas).

But they would have been far more severe had the CFMU itself not been introduced. The success of the system is indicated by the fact that whereas in the early 1990s, the International Air Transport Association (IATA) was forecasting that unless something was done the overall economic cost to Europe of air traffic congestion and delays would amount to a likely $10bn a year by the end of this decade, the figure is now estimated to be around $5bn.

From that it is clear that, despite the undeniable progress already made, much more still has to be done. The harmonisation of European ATC services under Eatchip is due to be completed by 1998, with integration completed by the beginning of the next Century. But already Eatchip is moving into a new phase, covering the development of what is called the European Air Traffic Management System (EATMS).

This is intended to maintain the Eatchip impetus and accommodate further growth. This phase will last until around 2005, and will include the introduction of more new operational concepts and new enabling technologies (including the use of satellite technology) designed to integrate Europe into the International Civil Aviation Organisation (ICAO) global Future Air Navigation System (FANS), also known as Communications, Navigation and Surveillance/Air Traffic Management (CNS/ATM).

This system is already under development (and indeed is already being used in some parts of the Asia-Pacific region), and is designed progressively to improve the quality and capacity of air navigation and ATC worldwide in the era of increasing traffic expected into the early decades of the next century.

■ **Air traffic control:** by Michael Donne

Satellites provide the crucial links

Airlines expect considerable cost-savings and benefits from the new systems

As the volume of world air traffic continues to grow, the need for accurate high-speed data links between aircraft and the ground becomes of increasing importance both as a means of communication and as an aid to navigation.

This is especially so in areas where traditional aviation data links, such as HF and VHF voice communication, or radar contacts, are difficult or unreliable because of distance or lack of facilities – for example, over large oceans or sparsely populated areas.

For several years, the world aviation community has been studying ways of overcoming such problems by the use of satellite communications. Under the auspices of the International Civil Aviation Organisation, a giant multi-billion dollar developmental programme is being undertaken worldwide to produce a viable global navigation and communications system that will enable aircraft to be monitored from the ground and communicated with automatically, no matter where in the world they may be flying.

This concept is called Communications, Navigation and Surveillance/Air Traffic Management, but usually described as the Future Air Navigation System (FANS). A key element in this system is what is called Automatic Dependent Surveillance (ADS), whereby an Air Traffic Control Centre (ATCC) can use the system to derive information about not only the current position of an aircraft, but also its intended flight path and other relevant information held in that aircraft's on-board flight navigation equipment. Moreover, this information can be obtained automatically, without the flight deck crew being actively involved.

But ADS is not the only element of the system: the satellites are essential (they are geostationary, which means that their orbital speeds are so aligned with the earth's rotational speed that they remain in one spot over the earth's surface), whilst the system also involves the development of an extensive global Aeronautical Telecommunications Network (ATN) for air/ground and ground/ground communications between aircraft, ATC Centres and aircraft operators.

The FANS concept has already been tested on a number of aircraft in commercial passenger service in different parts of the world, including parts of the Asia-Pacific region and across the north Atlantic, enabling the aircraft to be reliably and consistently tracked.

The UK, through the Civil Aviation Authority's National Air Traffic Services, is playing a key role in the overall development of the ADS system. In association with other European ATC organisations and avionics companies and with European Commission funding, under a programme called ADS Europe, it has been tracking from its Bournemouth-based ATM Development Centre many flights by British Airways and other airlines' aircraft.

Many benefits are expected to flow from FANS, and especially from ADS. For example, current aircraft separations in oceanic airspace can be decreased and thus airspace capacity itself increased. Aircraft can be offered the best possible routes, resulting in time and fuel savings and therefore lower airline costs. Route changes can be handled swiftly in emergencies or bad weather, whilst up-to-date and virtually real-time weather pictures from remote areas can enable better forecasting, especially of favourable winds.

In Pacific Ocean trials, cost savings have been estimated at up to $10,000 for specific flights. Multiplied over thousands of flights by airlines in a year, the overall savings produced by the system when fully operational by the early 2000s could amount to millions of dollars annually.

The benefits of FANS are not limited to long-haul routes and traffic. The early prediction of aircraft flight paths into crowded airspace such as in parts of Europe, for example, can be used for improved local Air Traffic Management (ATM), whilst the greater accuracy of satellite-based ADS position reports can help to fill in gaps in existing ground radar coverage caused by terrain screening or low-level flying.

NATS, for example, as part of its ADS Europe programme, during this past September's Farnborough air show actually tracked from its Farnborough show stand a Norwegian helicopter operating in the North Sea whilst flying as low as 100 feet.

The ADS data was transmitted from the helicopter to an Inmarsat satellite over the North Atlantic, then through Ground Earth Stations at Goonhilly Downs in Cornwall or Eik in Norway through public telecommunications networks to the NATS Bournemouth ATM Development Centre, and thence to the Farnborough stand.

Another use of satellites in overall Air Traffic Management, though not part of the global FANS programme as such, is as a replacement for the long-standing radio-based Instrument Landing System (ILS) for all-weather precision approaches to airports. For, through the 1990s, ILS has been coming under increasing pressure from the growing use of commercial radio broadcasting signals and from both legal and illegal FM broadcasters.

■ **Theme park image:** by Roger Bray

The playground diversion

Currently the aim is to find a line between retailing, catering and entertainment

Play a round of golf between planes. Win back the cost of your trip at the gaming machines. Soon you may even be able to sit in a simulated control tower and follow the complex manoeuvrings of air traffic control. The world's airports are coming up with ever more ingenious ways of helping passengers pass the time – and upping their revenues in the process.

The idea that airports are turning themselves into theme parks is some way wide of the mark. Though Las Vegas, with its huge gambling turnover, is an exception, retailing will always be far more lucrative than entertainment. But the need for massive investment to cope with the anticipated double of worldwide traffic by the end of the next decade demands that no avenues are left unexplored.

In Europe the threatened loss of duty and tax free income from passengers flying within the EU has added urgency to the search. Even though they are not flying, many people remain sufficiently fascinated by the workings of civil aviation to pay for an airport tour. And with tighter security demanding longer check-in times for many passengers, novel diversions are being seen increasingly as a way of tapping that captive market when the shopping is done.

Cleverly planned airport visitor centres can also soften local opposition to expansion. Amsterdam's Schiphol, for example, has a push button panel allowing people to compare the noise made by the latest, quietest jets with that of earlier aircraft and to consider the varying quality of sound by setting cello music against the whine of a dentist's drill – with both recordings played at the same decibel level.

To some airport executives, the theme park image is anathema. London's Gatwick, for example, has been trying desperately to slough it off. Its management was quick to recognise the potential of imaginative entertainment but anxious to present it as an educational experience, linked to the National Curriculum, from which local schools could benefit.

Schiphol's casino: defying moral strictures *Clive Howes*

If Gatwick's purpose is serious, it is following a theme nonetheless. Its leitmotif is the history, future and science of flight. The flight deck from the first Comet II jet airliner has been installed in its spectators' gallery. There are plans for inter-active exhibitions and simulators, in which passengers and visitors can "land" an aircraft. Management is even considering setting up a wind tunnel, so that people can put on wings and feel the effects of lift.

The idea of a remote control tower, where visitors could watch radar screens and hear radio conversations with pilots, has also been kicked around. But in a modest way, North Carolina's Raleigh-Durham Airport got there first. It already has a play area with a child-sized aircraft cockpit – and piped transmissions from ATC.

Munich's new airport, which opened in 1992, has a joint ticket arrangement with a branch of the Deutsches Museum, which houses the world's biggest scientific and technological collection. Visitors can tour the airport and look over three vintage aircraft from the museum – a Ju-52, a Super Constellation and a DC-3 – which are parked near the spectators' hill. A new centre, planned to be ready by 1999 and mainly comprising offices, will also have space for outside exhibitions and, when jet noise abates sufficiently, for concerts.

There is an increasing tendency for airports to soothe the frustrated traveller with collections of art, such as that provided by corporate donors at Chicago O'Hare's international terminal. The recently-opened Denver International in Colorado, whose total area is so vast you could only just about squeeze it into Manhattan, has adopted a mixed approach. It has installed two arcades of video games and is hoping the city's Children's Museum, which ran an offshoot at the old Stapleton Airport, will secure funding for a new one at DIA – with "hands-on" on exhibits. If passengers become enthralled, such attractions could pose a problem for airlines anxious not to miss precious take-off slots.

As Mr David Camp, senior associate at London-based leisure consultants ERA, which has worked on proposals for Gatwick and Munich, points out: "You don't want passengers spellbound and oblivious when their flights are called. There has to be some way of alerting them when it's time to go."

Elsewhere, Las Vegas airport is an extension of the city's glittering "Strip", with over 1,000 slot machines raking in an estimated turnover of $20m-$22m a year.

Although some airport managements have been wary of attracting moral criticism by tempting bored passengers to gamble, Schiphol has a casino. In some places the line between retailing, catering and entertainment is a fine one. Seaworld has a mini-aquarium in its shop at Orlando, for example. Atlanta's Hartsfield has a food court of the kind now commonplace in US shopping malls, where passengers may choose food from a variety of outlets ranged around a shared dining area. And Kiev Airport has an Irish bar, run by Aer Rianta, with signposts to Dublin and Limerick. Inevitably, golf has made its mark. At Dallas-Fort Worth there are two 18-hole courses. Chicago's O'Hare and Schiphol both have simulators. It is through virtual reality that airports are most likely to expand such attractions. As Mr Camp says: "That way you can create a lot of options in a small space. But it's not being done very much yet".

Mr James Bidwell, marketing director of Sega Amusements, Europe, which has just opened a large centre at the Trocadero in London's Piccadilly Circus, says: "Although you will find our equipment in use in passenger terminals, we have no specific plans yet to open centres at airports. There is no reason, however, why we should not do so in future."

IV WORLD AIRPORTS

■ **Australian privatisation:** by Nikki Tait

Auction for the 'sale of the century'

A wide range of airports are on offer, but Sydney remains the most complex deal

"Sale of the century" is how one local newspaper tagged the privatisation of Australia's main airports. For would-be buyers, however, it probably seems more like one of the longest auctions ever conducted.

The privatisation scheme is notable partly for its breadth. While other countries have sold off individual airports, few have tried to hand over the running of virtually all of their main airports to the private sector.

In Australia's case, the sale is due to cover all 22 existing airports run by the Federal Airports Corporation, a federal government-owned body, as well as the yet-to-be-built second Sydney airport, which will be located somewhere in the city's southern/western fringes. But this sale process has taken an exceptionally long time to arrange. The notion of privatising the airports – a move which should pour several billions of dollars into federal government coffers – was first put forward by the former Labor federal government back in the early-1990s.

Initial objections were ideological, and came largely from the party's left-wing. As a compromise, it was agreed that buyers would be offered long-leaseholds, rather than freeholds. In 1994, party backing for the privatisation plan was secured. At that stage, Labor's plan was to sell the four busiest facilities – Sydney, Melbourne, Brisbane and Perth – at the outset, and then follow up with a second tranche of sales covering the smaller airports.

But its efforts to get enabling legislation through parliament hit a second obstacle when the conservative Liberal-National coalition – then in opposition – claimed that the sale of Sydney (and Sydney West) should not proceed until the severe "noise" issues surrounding the facilities were resolved. The sale plan was effectively blocked.

When the government changed last March, it fell to the coalition to get the airport privatisation process back on track. Given its pre-election stance, there was little likelihood of Sydney making the first tranche of sales. Instead, the coalition opted to pursue the Melbourne/Brisbane/Perth sales in the first tranche.

This time, it was Labor and the minor parties who raised difficulties. They argued that, to ensure competition, there needed to be restrictions on the degree of cross-ownership permitted between the privatised airports – even if this meant lower sale proceeds.

In August, the government conceded the point. It placed a 15 per cent limit on cross-ownership and management rights between Sydney, Brisbane and Melbourne; said that all bidders would need to be majority Australian-owned; and barred airlines from having more than a five per cent equity interest in any facility.

These constraints did not prevent a deluge of interested buyers. When the initial call for expressions of interest closed, over two dozen groups or consortia were said to be in the hunt. The interest was both domestic and international, with the latter group teaming up with local players to meet the "domestic control" constraint. Holland's Schipol, British Airports Authority, Lockheed Terminals in the US, Ireland's Aer Rianta, Manchester Airport, and Auckland International Airport were all involved with different consortia.

Last month, these expressions of interest were pared down to a "short list" of around one dozen bidders, and due diligence is currently under way. Final bids have been called for by end-January.

> **Final bids have been called for end-January; bidding could stop then**

The government's advisers have indicated that the bidding could end at that point – presumably if someone delivers a "knock out" offer for any one of the three facilities. Conversely, further negotiations with a shorter "short list" could ensue. The one-time constraint will be the government's desire to bank the proceeds on the first airport sales in the 1996-97 financial year.

Also uncertain is the form of sale process to be used for the "second tranche" of airport sales – which range from properties with growth potential, like Coolangatta and Canberra, to much smaller facilities with annual revenues below the A$1m-mark, such as the Mount Isa airport near the central Queensland mining town. Indications to date suggest that some "bundling" of these properties is likely, but no procedure or timing has been confirmed.

Finally, there is the fraught question of the Sydney/Sydney West sale. The existing international and domestic facilities at Kingsford Smith are the most profitable of all the FAC airports, and would probably be among the most keenly sought. Cross-ownership restrictions would seem to restrict successful bidders in the Melbourne/Brisbane sales. That has not deterred BAA from saying that it would simply lobby to have those constraints removed at the appropriate time if necessary.

But budgetary considerations may discourage Canberra from waiting too long: it is assumed that the three airports being sold will raise perhaps A$1.5bn-plus, while Sydney could produce almost as much again.

O'Hare: its focus is on being 'the entire travel experience' but not to the extent of becoming a Heathrow-style duty-free shopping paradise

■ **O'Hare:** by Laurie Morse

One of the oldest but still the busiest

Travel services are the priority but shopping concessions are being upgraded

Chicago's O'Hare International Airport has undergone enough refurbishment in the past five years to qualify it as a "new" facility, even though the midwestern gateway is one of the oldest in the US air transport system, and the busiest airport in the world.

International travellers are served by a $618m terminal completed in 1993, with customs processing and baggage handling facilities designed to accommodate 4,500 passengers an hour. Situated about five minutes by light rail from the main airport, international business travellers who need to make domestic connections should allow time for the commute. United Airlines – with its headquarters in Chicago – has 1,000 flight arrivals or departures per day out of O'Hare and also a new terminal. To keep up appearances, American recently renovated its terminal facility, with special attention to business travellers' needs.

The two airlines account for 80 per cent of O'Hare's traffic. With four terminals and 162 gates, O'Hare serviced 67.2m passengers last year, a 7m increase from 1990. The fastest-growing segment of O'Hare passenger traffic is international travellers. The international terminal served 6.8m passengers last year, up 40 per cent from 4.8m international travellers in 1990.

The new construction and renovation leaves visitors with an impression of a clean, light, and airy Chicago, but this cannot erase the fact that O'Hare's sheer size can require passengers to traverse long distances just to get from gate to curb, or vice versa. Wheeled luggage carts are free in the baggage claim area of the international terminal, but must be rented at all other airport locations. Moving sidewalks and briskly-paced escalators help the problem.

However, the long walks are not as desolate as they once were, now that the City of Chicago, the airport's owner and manager, are in the midst of a campaign to upgrade O'Hares's concessions. Aiming to raise the relatively meagre $3 per passenger average spent at O'Hare, Ms Mary Rose Loney, Chicago's new airport commissioner, is expanding the airport's food, beverage and retail programme.

The square footage devoted to concessions will grow by 60 per cent across the airport over the next five years, with high-quality tenants being sought for both new and existing space.

"We're aiming for an eclectic mix of national name-brand products and local Chicago brands," said commissioner Loney. That means finding McDonald's hamburger restaurants at the airport (seven of them distributed among O'Hare's nine concourses) alongside Chicago's signature hotdog stands and popcorn carts.

Travellers can now get a whiff (for free) or a taste (for a fee) of Starbucks coffee at several O'Hare locations, a popular gourmet addition to the usual heavy airport java. Shoppers will find a branch of the FAO Schwartz toy shop in the international terminal, and negotiations are under way for the GAP to open an O'Hare clothing store. A new, free, educational play area for children was recently opened on the international terminal's departure deck.

However, Ms Loney cautions that she has no plans for Chicago's airport to become a Heathrow-style duty-free shopping paradise. "We are a pubic transport facility," she says, "and we want to stay focused on the entire travel experience." That means working hard to make sure baggage handling, ground transport, and airport personnel are all organised to get travellers through the airport and on their way as quickly and pleasantly as possible.

Because its central-US location makes O'Hare a popular meeting spot for US businesses, the airport is well-equipped with office services and other business amenities. There is a full business centre on the lower level of O'Hare's main terminal, and airline clubs also cater to business needs. American Airline's Admiral's Club at O'Hare is the largest VIP airport club in the world, and its business services are available to non-members at relatively modest fees. Telephone banks in most terminals now include data ports for computers and facsimile machines. Universal automatic teller machines allow banking at several airport locations.

O'Hare is 17 miles north-west of Chicago's business centre, about a $35 and 45-minute taxi ride from downtown. Car rental facilities are located about half a mile away from the main terminal, and can be reached by free shuttle buses.

The Kennedy expressway, the main arterial between O'Hare and downtown, is famous for its congestion, particularly at peak commuting times. Public transportation can be quicker, but not advisable after dark. Chicago Transit Authority trains can be caught right in the airport, and will deliver riders to Chicago's downtown for a fare of $1.50. Minibus limousine service is also available from the main terminal for a cost of about $9 for a one-way ticket to most large downtown hotels.

■ **Atlanta:** by John Authers

Olympics bring in gold

Expansion and geography have made the airport more than a US air network hub

"Atlanta's airport – that's why Atlanta happened in Atlanta and not in Birmingham, Alabama."

That is the judgment of one chief executive who recently moved his company to Atlanta, and he may well be right.

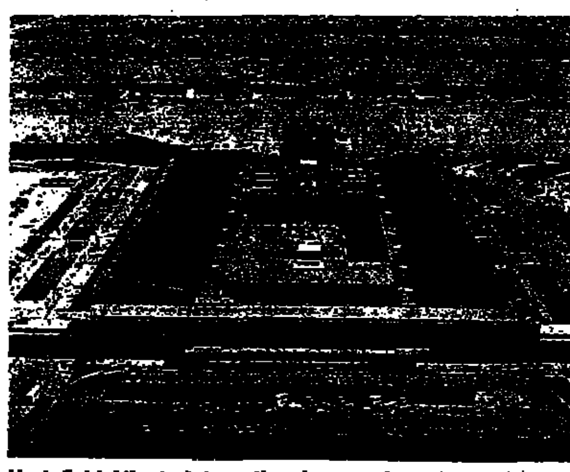
The spectacular economic growth of Atlanta, host city for this year's Olympic games, and the fastest growing US city of the 1990s, owes much to its airport, which has long benefited from being at a "hub" in the US air network.

More recently, the growth of the city has begun to have a positive impact on the airport. This can be seen at the cosmetic level, with the airport benefiting from an extensive $200m refit conducted swiftly as part of the preparations for the Olympics.

It can also be seen in the economic bottom line, with an increasing proportion of the airport's users starting or ending their trip there, not using it as a hub.

Economic statistics show how the city and its airport have grown together. From 1986 to 1995 the total number of passengers using the airport rose from 45.1m to 57.7m. Not all of this was internal: the number of international passengers doubled from 1.41m to 2.90m over that period, while total freight almost doubled from 294,929 tonnes to 544,956 tonnes.

For the first few months of this year, it even overtook Chicago's O'Hare airport, the traditional main hub of the US air network, to become the country's biggest airport.



Hartsfield Atlanta International: extensively refitted

Its traffic fell off slightly later in the year, thanks to the troubles of ValuJet, the discount airline based in Atlanta, which was grounded by federal authorities for several weeks following a fatal accident.

Managers of the airport, which is owned by the city council, and named after William Hartsfield, a former mayor, admit that its growth has owed a lot to luck.

Geography is on Atlanta's side, and with the migration of people and businesses towards the "Sun Belt", including surrounding cities, it is now a more logical hub for many journeys than Chicago a thousand miles to the north.

It was also lucky to host several carriers which would grow to a dominant position in the US market, including Delta, still one of Georgia's largest employers, and Eastern and Southern, which have since been subsumed by mergers.

The presence of Delta and Southern proved invaluable to Atlanta when airlines were deregulated, giving them a hefty incentive to save costs, and therefore move to a hub and spoke system, rather than attempt to offer multiple flights to multiple destinations.

Soon the joke was that whether you were going to heaven or hell, you would have to pass through Atlanta.

The airport benefited further from the presence of regional airlines, another phenomenon encouraged by deregulation.

Then the decision to build the present terminal (on the site of the original airfield) in the 1970s, proved to be perfectly timed. It came just as technology was allowing airliners to land on east-west facing runways, without the need for north-south runways.

This enabled it to service more aircraft at any one time, and to conserve space, with 158 domestic gates – the most in the US.

Hartsfield's new terminal has a series of five parallel concourses, joined by a smooth-running 3.5 mile-long underground railway system which transports passengers swiftly and efficiently, while its network of parallel runways feed into a central area. It does not need to use the "slotting" system for allocating places to airlines used in Chicago and New York. Last year, a daily average of 2,066 take-offs and landings took place.

In recent years, the growth of Atlanta has changed the composition of the airport's traffic, and now about half of all its passengers are at their origin or destination, not just in transit. Parking has been steadily expanded so that there are now 25,000 spaces, producing revenue, last year, of $50m. This makes it Hartsfield's second largest revenue producer, after landing fees from airlines and ahead of merchandise income in the concourses.

Further expansion, for both passenger and cargo traffic, will be international. The $200m refit, which provided the airport with a pleasant new atrium at its entrance, and also allowed upgraded its security capability, followed the opening of a new international concourse, parallel to the others, in September 1994. It cost $300m, and is now the largest single international passenger terminal in the US.

Hartsfield is also attempting to expand its cargo capacity, through plans to increase its storage space by 50 per cent.

In particular, Hartsfield wants to establish itself as the gateway for traffic from Latin America, supplanting Miami in the process. It is now working hard to market itself to airlines in the region, pointing to its more convenient geographic location, and its superior facilities.

Heathrow: In 1943, the land was flat, had good drainage and was only 12 miles from the centre of town Glyn Genin

■ **Heathrow:** by Roger Bray

Battle against the traffic

To meet demand a new terminal is neededand links with regional transport systems

If the cabinet committee which chose Heathrow as the site for London's principal airport had possessed visionary powers there is little doubt its members would have shaken their heads and looked elsewhere.

The year was 1943 and it seemed a good idea at the time. The land was flat and had good drainage; it was only 12 miles from the centre of town; and besides, 51 other options had been surveyed and rejected.

Ministers could hardly have foreseen the explosion in mass travel to come. They could not have imagined that, half a century later, jets carrying hundreds of passengers would start their final approaches over the capital's densely populated western suburbs at the rate of one every 90 seconds.

A glimpse of the future would have consigned Heathrow's awkward "Star of David" lay-out to the waste bin. Road traffic was light – and one early proposal even envisaged runways spraying out at all angles from a circular terminal, like spokes from a bicycle hub. Nobody could have predicted the building of the M4 motorway or anticipated that, one day, squeezing drivers through a tunnel under the tarmac would create serious congestion.

So it is all the more remarkable that Heathrow, whose 3,000 acres are only about one tenth the surface area of the recently opened Denver International in Colorado, should have become the world's busiest international hub, handling some 54m passengers a year and offering more flights to more overseas destinations than *any other airport.*

There are some 1,100 every day – to 213 cities and resorts in some 85 countries. That includes over 20 return service to New York and 33 to Paris. And it continues to grow. Early next century, if owner BA has its way, a fifth passenger terminal will open on the north side of the airport, increasing its capacity to some 80m passengers a year and enabling Heathrow to keep pace with an expected doubling of worldwide air traffic by the end of the next decade.

Those opposing the development at a current, marathon public inquiry, protest that the airport is a monster out of hand; that the huge number of passengers who simply change planes there contribute little or nothing to the economy; that road traffic in the area will become intolerable; and that the British Airports Authority (BAA) should look somewhere else to expand.

That Heathrow has beoome a monster – in all but acreage – is undeniable. Its most recent year end, operating profit was £313m. It handles some 420,000 take-offs and landings a year, almost all of them scheduled flights. It employs some 55,000 people on the airport alone, another 25,000 or so in directly related businesses just beyond the perimeter, and supports an estimated 191,000 jobs elsewhere.

Just over one third of all passengers travel by public transport – but the long-term goal is to increase this to 50 per cent. If Terminal 5 goes ahead, it will be served by an extension of the Piccadilly Line underground. It is hoped that the £300m Heathrow Express rapid rail link with Paddington *which, despite delays,* should open in 1998, will carry some 6m passengers a year.

Meanwhile BAA is looking to integrate the airport more closely with Britain's national rail network, with initial plans to develop two stations on lines which run within two miles of the airport to the north and south. They would cost around £5m each and would provide bus connections to the terminals.

Where do Heathrow's passengers go? Nearly one third travel to other EU countries; 12.8 per cent to other European destinations; 18 per cent fly domestically or to the Channel islands; 17.4 per cent to north America; 13 per cent to the Middle and Far East; 3.4 per cent to North Africa; and another 3.4 per cent to any other places not covered by the preceding figures.

Forty per cent of them are on business – and nearly two thirds are men. Over one third are taking their first flights, while 17.6 per cent have flown seven or more times. The overwhelming majority are well or comfortably off, with 53.2 per cent in the AB socio-economic bracket and 36.1 per cent in the C1 category. That explains why Mappin and Webb sells more Rolex watches at its Terminal 4 shop than at any other outlet and why one well-heeled customer once parted with £8,500 for a magnum of Chateau Margaux.

Retailing provided 45 per cent of Heathrow's £761m income in its last financial year. At the last comprehensive count there were 17 tax and duty free outlets, about 100 specialist shops, 24 booksellers, 39 bureaux de change and more than 50 bars and *restaurants, with a range of* cooking stretching from Indian to Harry Ramsden's fish and chips.

Heathrow's passengers buy a bottle of duty free whisky, on average, about once every six seconds. They consumer 26,000 cups of tea and coffee every day, 6,500 pints of beer and the same number of sandwiches.

Transfer traffic is 35 per cent of the total. Heathrow's management recently invested £100m to provide a new waiting area for them. It claims to be the world's top airport in terms of the frequency of its connections, ten per cent ahead of its closest rival, New York's JFK.

But critics who complain that transfer passengers contribute little overlook their importance to the airport's critical mass. If they lost that business, airlines might operate fewer flights to some destinations or even abandon routes altogether, reducing London's attraction as a centre of communications.

It is sometimes hard to credit that only 40 years have passed since the first jet airline landed at Heathrow, or that as recently as 1960 the long-haul terminal was still what one observer described as "a shanty town" of makeshift, toffee-coloured prefabs. It is equally astonishing to think that within two decades, an airport which is having to shift a sewage farm just to make space for its proposed new terminal, could be handling half as many passengers again.

■ **Schiphol:** by Gordon Cramb

Efficient and quirky

Expansion plans and duty free revenue are among the key future concerns

Schiphol: facilities have to be open and friendly for arrivals and transit passengers alike

Like the city which it serves, a 15-minute train ride away, Amsterdam's Schiphol airport manages to be both efficient and quirky. Facilities include a casino used by *those hoping to fund their* next holiday, and a solarium for travellers anxious to top up a tan.

Their introduction reflects both a concern for future profitability and an existing fact of life. First, duty free sales may disappear within the European Union from 1999. Second, nearly 40 per cent of the 25.4m passengers Schiphol handled last year were connecting between other destinations.

Some 87 airlines currently use Schiphol, the EU's fourth busiest hub. But KLM, along with related companies such as Air UK and Northwest Airlines of the US, accounts for more than 70 per cent of traffic. This is high even by European standards where reliance on a national carrier is the norm, observes Standard & Poor's. The US credit agency in September *affirmed its AAA rating of* the state-backed airport.

Schiphol is 76 per cent owned by the Dutch government, with most of the rest held by the Amsterdam municipality. The state is contemplating a partial privatisation, and could make a decision by the year's end.

In announcing net profits up 40.3 per cent to Fl78.7m in the first half to June, the airport said it expected that the outcome for all of 1996 would "strongly increase" from the Fl145.7m recorded for last year, when revenues reached Fl883.8m.

That sort of margin makes Schiphol – western Europe's fourth largest airport and the fastest growing – a saleable investment. The cabinet retains concerns, shared by airlines, over how landing fees would be regulated.

Mr Pieter Bouw, KLM president, said this month: : "We are anxious to know the position of the government, and how effective will be the measures through which abuse of the monopoly will be avoided." KLM is itself said to be interested in taking a minority stake in Schiphol.

Some say it already holds sufficient sway. KLM "virtually owns Schiphol," says Mr Stelios Haji-Ioannou, owner of EasyJet, a budget British airline which is in dispute *with the Dutch flag carrier* over alleged abuse of a dominant market position. The ticketless EasyJet has also had arguments with Schiphol over the compulsory use of its computer check-in system.

Mr Ruud Wevers, an airport official, acknowledges that the trend towards no-frills operators needs to be addressed. "It may be possible to differentiate in facilities offered. But we have always taken the stand that all passengers using the airport have the same facilities."

Another problem for such carriers has been a tightening of noise restrictions, requiring EasyJet to upgrade its fleet. From this month no new operators of older, noisier narrow-bodied jets such as the Boeing 737-200 are being allowed slots, and a night ban came into force for existing users. Sanctions may be extended to their wide-body equivalents.

Noise control is the most pressing problem for Schiphol, which is likely to take another decade to reach a government imposed annual capacity of 44m passengers. As part of a Fl8bn investment programme by the airport, a fifth runway is planned to be operative by 2003. Because its site is farther from residential areas, *the overall noise impact is* intended to shrink.

Environmental campaigners remain unconvinced. Some local organisations have bought plots of land within the zone earmarked for expansion, hoping to hinder approvals in the way achieved by farmers' groups at Tokyo's Narita.

A wider debate is in progress on whether future capacity should be created by the building of a Kansai-style artificial island in the North Sea to provide runway space – and whether this should become a second Amsterdam airport or a Schiphol satellite.

Either way, it would have a fast shuttle link. Schiphol would also by then be served by a high-speed train line to run south to Brussels, providing a three-hour through route to Paris and a four-hour ride to London via the Channel Tunnel.

The airport, which expects that 5m passengers a year would arrive or depart in this way, is happy to see short-hop traffic syphoned off to rail. "It enables more optimal use of our capacity for bigger aircraft flying to other destinations," says Mr Wevers.

For KLM, Mr Bouw is anxious to retain quick passenger connections. Freight handling would also have to *remain integrated.* The volume of transshipped air cargo rose 11.8 per cent in the first six months of this year, largely because of an increase in KLM capacity to Asia.

This boosted fee income for Schiphol at a time when revenue growth from retail concessions in its passenger terminal was suffering an "even more serious than expected" setback. To blame were changed spending patterns by travellers flying among member countries of Europe's Schengen agreement on borderless travel.

Unencumbered by a passport, passengers apparently became less keen to burden themselves with the traditional litre of spirits. The trend provides a foretaste of the struggle facing EU airports to replace revenue lost if the duty free regime is abolished.

■ **Retailing:** by Catherine Chetwynd

Flying by shopping mall

EU rules to stop duty-free goods is forcing airports to look for a new commercial role

Walk into any airport these days, and you could be forgiven for thinking you had strayed into a shopping mall; there is little you cannot buy – pre- or post-customs – with goods ranging from designer fashion to coffee beans.

Airport managers are as much concerned with retail as with the business of moving passengers around. And with the proposed abolition of duty-free goods within the EU by June 30 1999, minds *are sharply focused on the* issue.

According to Mr Mario Monti, the EU's taxation and internal market commissioner, duty free "is completely at odds with the aim of establishing a single market." Not that fiscal unity is an outstanding characteristic of the 15 member states, with VAT ranging from 15 per cent in Germany and Luxembourg to 25 per cent in Denmark and Sweden.

But the ramifications are huge. Up to 100,000 jobs in the travel industry and related trades could be hit, and the projected loss of business could be as high as $4.8bn of the $6.9bn intra-EU duty and tax-free sales.

Not only do revenues from duty and tax-free sales contribute to investment by airports in new infrastructure and facilities, but they also keep down the cost of landing fees and therefore ticket prices. For example, a £10 *bottle of alcohol* in an duty free shop comprises £5 cost price, £1 profit and £4 subsidy of travel costs.

In the face of this assault, around 500 leading companies connected with the industry and members of the International Duty Free Confederation (IDFC), have invested $3m in setting up the European Travel Research Foundation (ETRF) to undertake research to back up the campaign against abolition.

But despite these considerable forces, airports are still having to create contingency plans for making up lost revenue. BAA stands to lose £77m – 44 per cent of the company's revenue comes from retail – and in the event of abolition, the authority, will be allowed by the Civil Aviation Authority to charge RPI plus 15 per cent on landing fees, spread over two years. This will bring in an extra £55m and will only set travellers back by 70p.

The authority's airports offer the sort of money-back guarantees you might expect in the high street, including refunds for customers unhappy with goods (you can return items by registered freepost in the UK and postage expenses will be refunded from outside the UK); assurance that prices pre-customs will be no higher than in the high street, and post-customs will be at least VAT-free; and the world's first airport loyalty scheme was launched at Heathrow in July this year.

In comparison, Frankfurt airport will not be so hard hit because it stocks only traditional *duty-free* products such as liquor, scent and tobacco. "Because of our limited range of duty free goods, we will be in a better position to compensate for the loss," says Mr Dagmar Neumann, head of retailing for the airport.

But Frankfurt is still lobbying the EU alongside other airports. This is the view of Amsterdam airport Schiphol, where 17 per cent of revenues come from duty free, making up Fl130m. It expects to lose 40 per cent of that, but the airport has potential for broader sources of income.

One quarter of the European distribution centres of American and Japanese multinationals are based within 10km of Amsterdam airport. Add the recent opening of the World Trade Centre within the airport perimeter, and with its landside shopping mall, Schiphol is in a strong position to set itself up as a service centre for the mini-business city surrounding it. "We have sources of revenue apart from duty free goods to keep airport charges down," says Ms Marianne de Bie, the spokeswoman.

Allders International has a turnover of nearly £500m from duty free in Europe.

Mr Ken Berridge, business development manager for Allders, says: "Abolishing duty free might look nice in terms of harmony but duty in Greece and Spain is one fifth of that in Sweden and half that in the UK. Duty free is almost the only *common denominator.*" Allders employs 2,033 people in Europe and would lose 70 per cent of its business. He is single-minded when asked about plans for recouping losses: "We are putting our energy into preventing duty free's abolition."

One body does, however, support the end of the concession: BEUC, the Brussels-based European consumer organisation.

According to spokeswoman Ms Valerie Thompson: "There is no justification for keeping it going within a single market. The most popular and most promoted products are cigarettes and booze, which is not what we want to see. And items such as cameras and electrical goods are often cheaper in the high street: consumers are misled into thinking they are getting a good deal."

The decision has been taken and persuading the EU to rescind such an edict is no easy task. But Mr David Zimmer, European affairs director of the IDFC says: "There is growing recognition by both the European Commission and member states that the abolition of duty and tax free business carries serious socio-economic impacts."

He adds: "We have been running the business successfully alongside the single market since 1992 and it is not disruptive. The revenue from such a vibrant business is at worst neutral and at best positive with healthy business paying considerable corporation tax. The business benefits easily outweigh the social cost of abolition *with the number of jobs that* would be lost."

VI WORLD AIRPORTS

Hong Kong: by John Ridding

Creating a giant hub

Its development is a vote for Hong Kong's future, but it faces fierce competition

To the west of Hong Kong island, on land clawed back from the sea, a vast building site is being steadily transformed into the territory's new airport.

The scale of the project is striking. The total investment of HK$156bn – HK$7bn less than the original budget – includes the construction of the world's longest road-rail suspension bridge, a series of commercial centres, a new railway and – the airport. Along with the Three Gorges dam in China, it is the biggest international infrastructure project.

To create the airport platform, two islands were levelled and a third was created in one of the largest reclamation projects to be undertaken. At one time, half of the world's dredging fleet was in Hong Kong to help create an artificial island almost 6km by 3.5km.

The scheme's significance extends beyond feats of engineering. "Hong Kong's continuing success as a leading international centre of finance, trade and tourism relies heavily on the development of its transport infrastructure," says Mr Henry Townsend, chief executive of the Airport Authority.

"The infrastructure projects that make up the ambitious Airport Core Programme are examples of the territory's determination to retain and develop this strategic role," he adds.

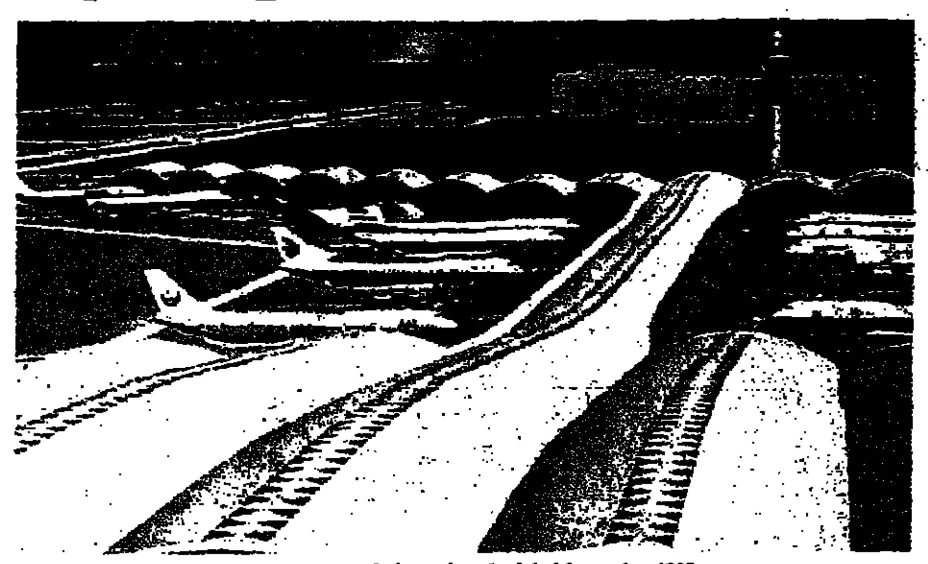
Such planning and financial commitment are significant as Hong Kong prepares to return to Chinese sovereignty next year. Amid rivalry from regional business centres, from Singapore to Shanghai, and with the uncertainties of the transition, the airport stands as a tangible vote of confidence in Hong Kong's future.

That has not always been the case. Diplomatic disputes between Hong Kong's present and future sovereign ensnared the airport project in bilateral wrangling. A breakthrough on the financing structure – the focus of discord – was finally achieved last year. Controversy has been replaced by improved co-operation as construction and contract awards have moved ahead.

One sign of the improved climate has been an agreement on the construction of a second runway at the Chek Lap Kok airport. An accord was signed at the end of May by the Sino-British Joint Liaison group, the body handling transitional issues, clearing the way for construction. Completion is expected by October 1998, several months after the planned spring opening of the airport.

The Airport Authority and many in the aviation sector have long pressed for the second runway, citing the cost-savings involved in using equipment on site and, more importantly, the predicted rise in demand.

According to a study this summer by the Airport Authority, an estimated 34m passengers are expected to use the airport in the year after its opening, an increase of more than 4m over initial estimates made in 1990. This compares with 27m passengers handled at the existing Kai Tak Airport in 1995, and the 30m expected this year, which will strain capacity to the limit.



Chek Lap Kok: the opening of the second airport is scheduled for spring 1998

It is a similar story for cargo, despite some slowing in the growth rate this year because of a cooling in Asian exports. Air cargo tonnage has grown at an annual average of 18 per cent over the past decade, reaching more than 1.3m tonnes last year. Forecasts for the number of aircraft movements at Chek Lap Kok have also been revised upwards, and are now expected to reach 201,000, compared with the initial prediction of 160,000.

Behind these revisions lies a continued rapid expansion in air travel in southern China and the region in general. Mr Donald Tsang, Hong Kong's financial secretary cites figures from IATA to support the economic potential of the aviation sector. According to these figures, international scheduled passenger traffic in the Asia Pacific region will represent more half of the world total by the year 2010 on the back of sustained business growth and rising tourism.

Few question the potential traffic for the region and for Chek Lap Kok. But amid the rapid progress towards completion and the award of contracts, there are several broad questions which will determine whether the airport fulfils its promise. One consideration is the capacity provided by other new airports sprouting across the region. Several regional centres, from Macau to Guangzhou in southern China, are building, or have recently completed, international facilities.

Last month, Macau's new airport received the one millionth visitor since it opened in November last year. Significantly, he was a Taiwanese businessman travelling on to the Zhuhai special economic zone in southern China, reflecting Macau's ambitions to develop as a regional transport hub.

Most in the aviation sector argue that expansion plans elsewhere pose only a limited threat to Hong Kong. "We are looking at high growth rates for the market as a whole, and Hong Kong's infrastructure and its importance as a business centre suggest it will continue to win the lion's share of business," says one airline executive. But he warns, however, that the territory can ill afford complacency, particularly on the cost front.

One area of particular concern is the fees to be charged for landing rights. Airport officials play down claims that charges could double at the new airport, but they admit that a rise is inevitable. "A big hike would prove a real burden for some carriers," says a Hong Kong aviation analyst. "And in an industry which is mobile by definition, that needs careful consideration."

Kansai: by William Dawkins

Still short of cruising altitude

After a troubled start, it is well placed now to exploit its special site and facilities

It is now just over two years since Kansai International Airport, the world's largest terminal, opened for business on a man-made island off Osaka, linking Japan's industrial heartland to the fast growing economies of east Asia.

But as a business, Japan's first 24-hour airport is still struggling to reach cruising altitude.

The average number daily departures and arrivals reached nearly 154, a mere one third of its 454 flights per day capacity in its first full year of operation to March 1996. It made a Y17.2bn operating profit in its that same year, but finance charges on the airport operator's Y1,528bn debt more than wiped that out, leaving the airport with a Y35.9bn net loss.

Originally, the airport operator, Kansai International Airport Company, had hoped to turn a profit in five years after start-up and pay off its debts after 23 years – but now it expects to have to delay loan repayments to meet that target. Fortunately, it is two thirds owned by the ministries of transport and finance, well able to cope with the risks that come with any new airport of this size.

Far from balking at the problems, the airport's government backers have given approval for a Y2.7bn expansion of the terminal building and runway apron over the next five years to make better use of the existing runway's capacity. But the big test of the government's resolve will be when it comes to the approval of investment in a second runway, the same size as the first – 520ha – due to open in 2007.

The airport has, from the moment work began 12 years ago, run into the kind of problem that dogs almost every big construction project in history. It opened 18 months late in September 1994 at a cost of Y1,500bn, 50 per cent over budget, partly as a consequence of the exigencies of its extraordinary site.

In land-scarce Japan, any project of this size has to go offshore along with scores of oil and gas terminals, warehouses, theme parks and other big infrastructure. But the objections of local Osaka fishermen – reminiscent of the rice farmers that have held up the expansion of Tokyo's Narita airport – meant the planners had to place the terminal all of 5km out to sea, five times farther out than the originally planned site, in the heart of Osaka bay, where all the region's other land reclamation projects are sited.

The sea bed that far out is so soft that it took its engineers, a UK-Japanese alliance of Ove Arup and Nikken Sekkei, five years to pump enough sand into the soil to stabilise it. The reclaimed island then settled more than the airport authorities had expected, requiring repeated extra fortification.

A final delay came with a minor trade row, when the US criticised the award of a ground transport system to a Japanese company – an allegedly rigged bid that was said to have spoiled the airport's role as a symbol of Japan's openness to foreign businesses.

But now those problems are now behind it – and the airport is doing its best to let its many positive attributes predominate. The terminal building, designed by the Italian architect Renzo Piano, has won plaudits for its elegant and yet functional design – a far cry from the dull, workmanlike terminals that make Narita such a depressing gateway into Japan for the average business traveller.

An example of why Kansai Airport is different is the way in which air-conditioning is provided by cool air blasted from floor level, to hug the lines of a high curved roof before descending on the crowd below. This contrasts with the multiplicity of air vents, usually stained with condensed dirt, that provide fresh air at Narita.

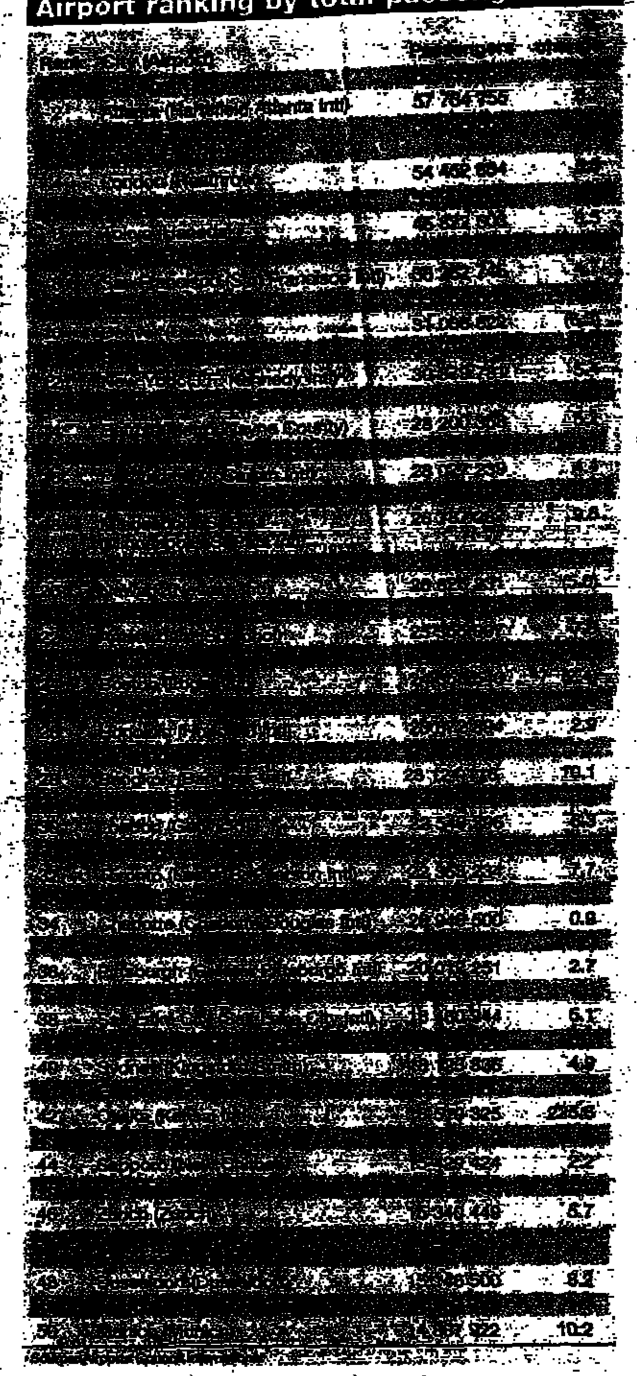
The other difference is the ease with which one can leave Kansai airport. A choice of relatively uncrowded expressway, Shinkansen high speed train, standard train and ferry boat means that the average traveller can get into central Osaka in around half an hour – between half and a quarter of the journey time from Narita into Tokyo.

And despite the fact that the airport is operating so far below capacity, the volume of traffic is impressive. It handled a daily average of 1,482 tonnes of cargo in its first year, more than 80 per cent of which was international trade – a mark of the economic size of the Kansai region, with a gross domestic product almost the equivalent of Canada. That represents nearly 40 per cent growth from the 1,051 tonnes of freight daily average that passed through the airport soon after it opened.

In the year to last March, the airport handled a daily average of 25,600 international passengers and 21,700 passengers. And the growth rate has been even more robust than for freight. Last summer, there were 541 international departures per week, one and a half times the number when the airport first opened. Domestic departures have grown over the same period from 66 per week to 84.

Kansai International Airport may not have reached cruising altitude, but it has definitely shown that it can, at least on the operating level, fly.

Airport ranking by total passengers



Changi: by James Kynge

The sparkling gateway

Singapore's closest business rival could be an ambitious project in Malaysia

There must be a temptation for the managers of Changi airport, Singapore's sparkling gateway to the outside world, to rest on their laurels. Year in, year out, their airport wins more international awards for excellence than any of its competitors.

There is no sign of a slackening. Despite winning nine more awards in 1996, Changi has been making new strides and its managers are setting ever higher standards of efficiency and courtesy for the airport's staff.

Mr Chan Yat, the director of Changi's human resource and public relations operations, said recently that the airport was looking into ways of cutting further the time it takes passengers clear immigration on their way into Singapore.

The airport's internal targets are already exacting: at least 90 per cent of passengers must clear immigration within eight minutes, customs within five minutes and the whole airport in 35 minutes. The first bag should be out in 12 minutes and the last within 29 minutes of a flight disembarking. The airport manages to meet its timing targets well over 90 per cent of the time, Mr Chan said.

Changi handled 23.2m passengers in the year to March 31, 1996, up 7.2 per cent from a year earlier. Capacity was 34m. But even this generous margin – a luxury to many international airports – was deemed insufficient.

Changi completed a new finger pier at Terminal 2 in June this year, which added 11 more aerobridge parking stands, increasing the airport's capacity by about another 2m. To passengers, the latest expansion means that it is now unlikely that they will ever have to disembark on to the tarmac and wait for a bus. The new facilities are also designed allow the latest generation of aircraft, such as the Boeing 777 and the Airbus A340, to dock.

The creation of overcapacity is typical of Changi, which has a guiding philosophy that supply must outpace demand. Airport officials quote research by the World Travel and Tourism Council which predicts that tourism in the Asia-Pacific region will grow at 7.9 per cent from 1995 to 2000. Tourist arrivals in the region could surpass 101m by 2000 and reach about 190m in 2010.

Such forward planning has been the secret of Changi's success. The island's old airport, Payar Lebar, recorded just 4m passenger movements in 1975. When Changi began operations in 1981 many doubted whether the traffic volumes projected at the time could be met.

But since then, multinational companies have invested billions of dollars in Singapore and the per capita incomes of its inhabitants have risen in some cases beyond those in European countries. Now the airport aims to be able to cope with 40m passengers by the end of the century.

Changi wins many international awards for excellence *Sarah Murray*

There is, however, an unprecedented challenge on the horizon. In Malaysia, Singapore's larger but less developed neighbour to the north, an ambitious airport project is taking shape.

Where planters used to tend tranquil groves of rubber and palm oil trees, bulldozers are now hard at work. Dr Mahathir Mohamad, Malaysia's prime minister, has said that the airport must be operational by January 1 1998. Estimated to cost M$9bn and cover 100 sq km, the Kuala Lumpur International Airport is scheduled to be able to handle 25m passengers a year in its first phase and 60m a year by 2020

Envisaged as a breezy glass and metal structure surrounding a copse of rainforest, KLIA will make use of a high degree of automation to achieve Changi-style efficiencies, said an executive working on the new airport. "The system will rely heavily on computer programmes. When a flight disembarks, the computer programme will activate a series of services right down to turning on the air conditioning in the appropriate airport bus," said another.

The Malaysian airport is also being designed to provide a range of services for business travellers. Business centres, meeting rooms, computers through which the Internet may be accessed, videoconferencing facilities and other information technology applications are all envisaged. One idea, said an airport official, is that some businessmen may be able to dispatch all their business in Malaysia without ever leaving the airport.

It remains to be seen whether KLIA will poach any business from Changi. Industry analysts predict that the Malaysian airport may undercut Changi's landing fees to attract transit and stopover business, especially between Europe and Asian-Pacific destinations. About 20 per cent of Changi's business currently comes from transit passengers.

But even before KLIA's first flight has taken off, Changi is busy turning itself into an information technology hub. This year opened what it claims was the first Internet Centre in an airport. The centre enables passengers to "bring their office to the airport" and send E-mail, scan documents and update themselves on the latest news and sports results. The software provides these services in a choice of Japanese, Mandarin Chinese, Korean and English.

And, of course, in an island where shopping is the national pastime, passengers may also browse on-line through the 100 shops in the airport terminal building and choose their purchases without leaving cyberspace.